OFFICIAL REPORT
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Public Audit Committee

Thursday 19 September 2024

Session 6

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Pàrlamaid na h-Alba

Thursday 19 September 2024

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PUBLIC AUDIT COMMITTEE
23rd Meeting 2024, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*James Dornan (Glasgow Cathcart) (SNP)
*Graham Simpson (Central Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kersti Berge (Scottish Government)
Carole Grant (Audit Scotland)
Donald MacRae (Water Industry Commission for Scotland)
Robin McGill (Water Industry Commission for Scotland)
Michelle Quinn (Scottish Government)
David Satti (Water Industry Commission for Scotland)
Catherine Williams (Scottish Government)

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 19 September 2024

[The Convener opened the meeting at 09:00]

Interests

The Convener (Richard Leonard): Good morning. I welcome everyone to the 23rd meeting in 2024 of the Public Audit Committee. The first item on the committee's agenda is to invite our new member, James Dornan, to declare any relevant interests.

James Dornan (Glasgow Cathcart) (SNP): Thank you, convener. I have no relevant interests to declare.

The Convener: Thank you very much indeed. I take the opportunity to thank Fulton MacGregor for his brief spell on the committee.

Decision on Taking Business in Private

09:00

The Convener: Under the second agenda item, does the committee agree to take items 4 and 5 in private?

Members *indicated agreement.*

Section 22 Report: "The 2022/23 Audit of the Water Industry Commission for Scotland"

09:00

The Convener: Our main agenda item this morning is further consideration of the 2022-23 audit of the Water Industry Commission for Scotland, which involved a section 22 report being issued.

I welcome our witnesses, who are from the Water Industry Commission for Scotland and the Scottish Government. First, I welcome Michelle Quinn, who is here as the Scottish Government's interim director general net zero. She is joined by Kersti Berge, who is director of energy and climate change in that directorate. We are also joined by Catherine Williams, who is the interim deputy director of water policy in the Scottish Government. From the Water Industry Commission for Scotland, we have David Satti, who is the interim chief executive, and Donald MacRae, who is the chair of the board. We are also joined by Robin McGill, who is the chair of the audit and risk committee as well as being a member of the board of WICS.

We have some questions to put to you, but before we get to those, I invite Donald MacRae and then Michelle Quinn to make short opening statements.

Donald MacRae (Water Industry Commission for Scotland): Good morning, convener and committee members. I start by saying that the Water Industry Commission for Scotland accepts the need for a greater focus on value for money and the need to operate to the highest standard of financial management. Today, we want to tell you about the changes at WICS since last December to meet those needs and to answer questions on the 685 pages of submissions that we have made to you.

WICS is the economic regulator of Scottish Water, but it also supports the Scottish Government's hydro nation strategy to the extent of generating international income of £1.2 million in the most recent audited financial year, which represents 22 per cent of total income.

What changes have taken place at WICS since December? The chief executive officer and accountable officer resigned effective from 31 December last year, which has allowed a change of culture and a rapid refocus on value for money. We have had an interim CEO and interim accountable officer in place since March—he is sitting on my right. We have seen the departure of one long-serving board member and welcomed two new board members. We have revised policies on travel and expenses, with the focus on full compliance, and we have reinstated our approvals panel to ensure that all significant expenditure has the required approvals in place. We have started a comprehensive change programme and are reviewing roles and responsibilities and improving internal governance.

We are happy to report on progress today, taking account of the need to respect the rights and privacy of some of the individuals involved.

I thank all the staff at WICS who contributed to the 685 pages of submissions that have been made to the committee while carrying on with the important task of economic regulation. Two of my colleagues are here: David Satti, who is on my right, is the interim chief executive officer and interim accountable officer, and Robin McGill is the chair of our audit and risk committee.

The Convener: Thank you very much, Mr MacRae.

Michelle Quinn (Scottish Government): Good morning. On 2 September, I took up the role of interim director general net zero while my colleague Roy Brannen takes a leave of absence for medical reasons.

I am joined by my colleagues Kersti Berge, director of energy and climate change, and Catherine Williams, who has been the interim deputy director for this area since mid-June. The previous deputy director in that post is no longer with the Scottish Government.

Since the last evidence session, the committee has received letters from the Scottish Government and from WICS, providing the additional information that you sought. Our focus is now on resolving the issues that have been raised, ensuring that our public bodies demonstrate the good practice principles of governance that people expect.

We have made good progress in several areas. We have commissioned two reviews—an independent review of WICS and an internal review of our sponsorship arrangements. As the committee has heard, ministers have appointed two new interim non-executive directors to strengthen the WICS board.

In the meantime, colleagues have continued to strengthen the sponsorship function and reset our relationship with WICS. That has involved ensuring that we align with the key principles of the review of the Scottish Government's relationship with public bodies, which was carried out by Eleanor Ryan; providing clarity on accountability; taking a systematic approach to assurance; ensuring that clear risk management processes are in place, including escalation routes; and ensuring appropriate capacity and capability in the Scottish Government sponsorship team. We have also strengthened our assurance within the DG net zero portfolio.

Although we welcome the immediate steps that were taken by WICS to address financial and governance issues, the Grant Thornton report that was provided to the committee as part of WICS' letter on 31 July clearly illustrates that there is much more to be done in that area. We want to ensure that we are learning the lessons from that work across Government, and the Scottish Government public bodies support unit is assisting us in embedding those lessons in our approach to sponsorship.

With regard to the next steps, the external review is being finalised, and we will consider its findings carefully. Today, my colleagues and I will endeavour to address your queries, in order to assist the committee in the preparation of your report.

The Convener: Thank you very much indeed. I want to place on record the committee's thanks for the amount of information that has been provided. There was a delay in publication because some of the information had to be redacted, but we will come to the substance of some of those documents and what they tell us.

It was useful for Mr MacRae to remind us at the outset that the whole purpose of the Water Industry Commission for Scotland is to ensure that Scottish Water provides

"long-term value and best-in-class levels of service".

I am sure that, this morning, we will scrutinise whether WICS lives up to those standards.

Mr McGill, in October 2023, Audit Scotland sent you an email regarding the business case for the Harvard business school course, in which it questioned why expenditure of more than £20,000 required approval by the Scottish Government, when the board's approval level was for expenditure of more than £100,000. I think that the expression that was used in that email was:

"this seems the wrong way around".

Have you addressed that issue?

Robin McGill (Water Industry Commission for Scotland): Yes, we have. That has been corrected, so those levels have now flipped. Therefore, we will see everything that is novel, contentious or above a much, much lower level than was previously the case, and the threshold is not set at one level for different kinds of expenditure. The situation could never arise again in which someone could bypass the board and the Scottish Government at the same time because of their belief that they did not need to go to either. That was part of the challenge.

I received the letter from Audit Scotland before it finalised and published its audit. It highlighted not only that issue but a whole series of other concerns about behaviour, and that is what got me and the board fired up. A lot of those things were unknown to us and quite surprising, and we jumped into action based on that. Audit Scotland was at pains to point out—I repeat this for completeness—that all the financial issues were below the levels of materiality, and it did not qualify the accounts in any way. That said, the behaviours and the pattern of behaviour that were highlighted caused us real concern.

The Convener: Okay. When you appeared before us in March, you told us that, through your committee meetings,

"we had regular conversations about public reaction to excessive spend, so there were challenges at the time. There was a lot of pushback, but we kept up that challenge."—[*Official Report*, *Public Audit Committee*, 21 March 2024; c 17.]

So, which is it? Was it a surprise that that was the way that governance arrangements were working and that that is how the approval process was being interpreted, or was it a long-standing battle that you were having with the former chief executive officer?

Robin McGill: It was a bit of both, actually. In May 2022, ARC was having a strong debate because there had been several issues of non-compliance with expenses processes, and we were challenging the executive and the chief executive, saying, "We need to do something about this." The argument back, which you can call "pushback" if you like, was—

The Convener: Well, no, you called it "pushback".

Robin McGill: Okay, but we are talking about two different things. I am talking about the review that was done prior to any of this. We asked why those things were happening and were told that, post-Covid, there was rapid inflation in bills for travel, hotels and meals and that the existing process for expenses was straining at the seams. I am talking about expenses only—not any other type of procurement. We said, "We need to be able to do our job," and, because there was more than anecdotal evidence that people were cancelling conferences and courses that they should have been going to in order to fulfil the obligations of their role, we said, "If you can't do your job, go away and come back with a proposal that we and the board can consider for addressing the challenges of an inflationary post-Covid world."

That was done and we looked at it much later and embarked on a six-month pilot process to see whether it would help people to be compliant—because we wanted them to be compliant—and to meet the realities of that world. Therefore, that process was going on from the beginning of 2022 and continued all the way through the period.

The things that I was talking about as surprising were things that we knew nothing about—that is why they were surprising.

The Convener: Can you give us an example?

Robin McGill: The Harvard executive education course is an example. It had not come to ARC or the board—it was a complete surprise to us.

The Convener: Mr MacRae, were you surprised by that, too?

Donald MacRae: I was surprised, because the board was not presented with the proposal, the proposed expenditure or even the business case. In my view, that was something that we needed to rectify, which we did quickly. That does not mean that the board wants to see everything, but we are trying to instil a change of culture in everybody, so that a decision will be made about such expenditure when it is considered to be novel and contentious, regardless of whether it might fit below or above any kind of rule.

What is important is that the executive, and, in particular, the interim chief executive, take a view on any kind of expenditure that, although technically within the rules or guidance, really needs board approval, because it would be judged novel or contentious. We are working on that quite a lot. The rule now is that, if you are in any doubt, you have to put it to the board for approval.

The Convener: As we are at the start of this morning's session, can you remind us how many employees WICS has?

David Satti (Water Industry Commission for Scotland): WICS has 21 employees. There are some unfilled vacancies but we are a small organisation.

The Convener: You are a small organisation. Previously, we were told that there were 24 employees—perhaps that is the full establishment. Of those 24 employees, how many of them had corporate credit cards?

David Satti: As you said, the number of staff has changed over time, so I would have to get the exact number. Corporate credit cards were issued to the organisation's leadership team, some members of corporate services and analysts who were undertaking international work. Travel and expenses are now incurred on personal cards, so the use of corporate credit cards is not what it used to be.

The Convener: The Grant Thornton report refers to flights to Rwanda—so there are still flights to Rwanda going on—and a flight to Brasília, which were paid for outwith the orthodox means of booking travel. Can you explain that a bit more?

Donald MacRae: I will ask David Satti to respond to that, but, before he does, I want to emphasise the point about cards and put that into perspective. David has statistics on their current use, which he will give before we go on to answer the question on Rwanda.

09:15

David Satti: As of now, 14 credit cards are still in circulation. However, only one is in active use, on the operational side of the business, for the purchase of information technology items. We do not, as standard, utilise corporate credit cards for on-going travel and subsistence costs.

The Convener: Okay. Can you tell me about the examples that the Grant Thornton report unearthed, which were about employees who booked their own travel? For example, if I were to be called to a meeting in London tomorrow, or if I needed to get to Stornoway on Saturday, I might, at such short notice, cut through the bureaucracy and just make my own booking. Why was a flight to Brasília, or Kigali, in business class, booked in the way that it was, and who did it?

David Satti: The first thing to say is that those trips were highlighted in the internal transactions report that WICS undertook. Following the departure of the former CEO, we undertook a full review of all transactions during 2022-23, partly to quantify the issues that the Auditor General identified. We then continued the exercise through the last nine months in which the former CEO was in post. We highlighted those two particular flights in that report, which Grant Thornton then surfaced. It was asked to independently verify the internal transaction report to ensure that it was as robust and comprehensive as possible, and then to examine the final quarter of 2023-24.

Both those particular trips were for the former chief executive officer. The one to Rwanda was for an International Water Association conference; the other was for a peer review exercise that he was undertaking in Brasília, which had been commissioned by the Organisation for Economic Co-operation and Development. Both trips were booked by the former CEO himself, using his own credit card. That was not in line with the applicable policy at the time, which was to utilise Corporate Travel Management, the Government-approved travel provider, unless it could be demonstrated that better value could be achieved elsewhere.

The Convener: Right, okay. Let me move on. Another ambiguity that came out in the audit was on the application, or the interpretation, of the £75 gift threshold that had been set. Where have you got to with reviewing that? It seemed to have been applied in such a way that it looked as though people were trying to get around it.

Donald MacRae: I will start by saying that this is an area on which we would like more clarity ourselves. We have not quite achieved that yet, but I think it worth while to explain the context. Therefore, I ask David Satti to enlighten us a little on the £75 limit, which has been applied in a way that we did not quite agree with.

David Satti: The £75 threshold is part of our governance framework. There are a number of thresholds, which Robin McGill spoke about earlier. Until the 2022-23 audit, the £75 limit was interpreted as being the threshold per person, whereas, in its external audit of the 2022-23 accounts, Audit Scotland interpreted it as applying per gift. As a result, rather than looking at the £100 Amazon gifts that we had discussed, Audit Scotland looked at them in their totality. At this moment in time, we are not utilising or engaging in any gift giving. We are engaging with the Scottish Government on our governance framework as we speak, and that will be one area that we will seek to clarify.

The Convener: One of the other areas highlighted in the Audit Scotland report, which is also brought out by the Grant Thornton review, is the whole policy on reimbursing people for meals. I do not quite understand some of the terminology around non-city meals, city meals and limits. Ms Quinn, we were told by Mr Brannen at the previous evidence session on the topic that the use of credit cards involves a no-drink policy. However, it is pretty obvious from the findings that have been unearthed by Grant Thornton that, unless people were eating huge amounts of food, a large proportion of those claims—some of them without receipts—were made for alcohol. Can you confirm that first of all?

David Satti: I can confirm that the expenses policy at the time did not prohibit the consumption of alcohol. The policy that we have in place now does. Alcohol is not something that staff can consume and have reimbursed.

The Convener: So it is a no-alcohol policy now.

David Satti: It is a no-alcohol policy now.

The Convener: Okay. I will turn to Michelle Quinn. One of the other things that have come out of the evidence that we have seen so far is that the former deputy director was also present at some of the meals that involved purchasing alcohol with the credit card. What is the position of the DG net zero on that?

Michelle Quinn: We have also become aware of that. In his correspondence with you, Mr Brannen made it clear that the former deputy director regretted that he did not make that clearer to you in his evidence submission. As Mr Brannen said, it is the Scottish Government's policy that we do not reimburse staff for alcohol, nor, to my knowledge, have we been asked to do so. We expect that staff register any gifts or hospitality that they receive over a value of £15, and we keep a register to that effect. It would be my expectation that the former deputy director would have done that.

The Convener: Rather than participating in something like that, do you not think that it would have been his role to challenge that?

Michelle Quinn: There may be a role there to do that. In the event that he was unsure of that, had he registered the potential for receiving hospitality, his line manager would have become aware of it and had that conversation with him.

The Convener: Why would he be unsure of that?

Michelle Quinn: He is not here to answer for himself, so I am afraid that I cannot say. I am just saying that, in the event that he was unsure or felt that there was any ambiguity over that, had he had the conversation with his line manager directly or, indeed, registered the potential for hospitality, that conversation would have happened.

The Convener: This is my final question. Does the Scottish Government have a limit on what staff can spend on meals per head?

Michelle Quinn: We have a limit. I do not have that information immediately at my disposal, but I am happy to provide it to you. It is a relatively modest sum, and expenses need to be receipted in that regard.

Kersti Berge (Scottish Government): I think that it is around £25 per head, but we will give you the exact figure.

The Convener: So a meal at L'escargot Blanc in Edinburgh, where the cost was £140 per head and £315 of the total bill of £562 was spent on alcohol, is outwith your policy?

Kersti Berge: Yes.

The Convener: Graham Simpson wants to come in, and then I will go to James Dornan.

Graham Simpson: I will follow up on this line of questioning on meals. Mr Satti, you wrote to the convener on 31 July to say that there would were no more meals out on expenses of more than £50. Does that mean that the practice of claiming for meals has stopped?

David Satti: Yes. There are two things to say to that. First, the use of corporate credit cards has stopped. If staff make any travel and subsistence claims that are not compliant, they will not be reimbursed. That is clear in the policy, which is in operation and working. Secondly, there is a limit. For example, the limit for a meal in Edinburgh is £20, and alcohol is not permitted as part of the policy.

Graham Simpson: Is that £20 per head?

David Satti: Yes, £20 per head.

Graham Simpson: Therefore, you could take a large group and accrue quite a large bill, but you would only get £20 per head.

David Satti: The policy is £20 per person, yes.

James Dornan: Good morning. My questions are for WICS. Given that your governance framework, which establishes the policies and procedures that WICS should follow in the delivery of its functions, clearly sets out the limits of its delegated financial authorities, how was it possible for those to be misinterpreted?

Donald MacRae: I will ask David Satti to answer that question and to perhaps concentrate on one example. Do you have an example in mind, Mr Dornan?

James Dornan: No, I will listen to the example that Mr Satti gives us—oh, I am sorry, I thought that he was going to give us an example. I was going to say that you talked about the fact that the board did not see everything, but, for example, the governance framework states that you are meant to get prior Scottish Government approval

“before incurring expenditure for any purpose that is or might be considered novel, contentious or repercussive”,

so did the board get to see anything that could be considered to be those things, or was that just left to the previous chief executive and it is all coming out in the wash now?

Donald MacRae: I will start the answer and David Satti can come in.

The relationship between the board and the executive, including the chief executive, is vital for good governance. The board has to monitor, oversee and approve the actions of the executive, but in order to do that, we have to have the information, and, not only that, the culture in the organisation that allows the executive to put any proposition forward that, as I said before, might technically be within the rules but requires a bit of judgment with regard to what is novel and contentious.

For example, the board was not presented with the business case for the Harvard Business School course. We had also had clean reports from Audit Scotland and internal audit for every year until December 2023. With regard to what has changed—this answers your question, before I hand over to David to provide more detail—it is really important to change the culture, by which I mean that the executive, and mainly the chief executive, comes to the board with a proposal for expenditure that might be viewed as novel and contentious.

That has happened, and it has been made possible by the departure of the previous CEO and by the interim CEO’s involvement of the board as a source not just of monitoring, oversight and approval but of advice, help and guidance. That is a change in culture that David Satti and we on the board have worked very hard on. We are now confident that a proper judgment is being made on anything that might be viewed as novel and contentious.

I want to pick up on a point that was made in one of those reports, which asked whether we can define novel and contentious. I am sorry, but that is very difficult to do, and that is where judgment is required. However, we recognise that, and we encourage the executive, including the chief executive, to take a view that, if there is any doubt, the proposal should be put to the board.

David Satti: When we embarked on phase 1 of the action plan, one of the key actions was to introduce or reinstate an approvals panel, which involves all the directors scrutinising expenditure approvals, including scrutinising whether proposals are seen as novel and contentious, as a way to discuss whether we, as an executive, are demonstrating value for money and in order to have a conversation about whether a proposal is something that should go to the board even if it is below the thresholds.

That process is in place, and there was an example in March of it working. I put forward an expenditure proposal for £15,000, and one of my colleagues rejected it on the basis that he did not think that I had considered all the options, so that is the type of challenge that now exists in the organisation. The expenditure approval was revisited, the options were considered and the proposal was a lot better as a result of that. That is the process that is now in place, but it was not in place during the final years of the former CEO’s tenure.

09:30

Robin McGill: It is an important point that that is a big cultural shift—to move from overseeing and approving historical events to getting people to discuss and approve proposals in advance, be open and ask the board’s advice. That is a major cultural shift, and that process is now in place. I must admit that that has made my job a lot easier.

James Dornan: It has, but how did you get to a situation where you were spending all that money on training courses for senior staff, with one part of the organisation feeling free to do that and the board being completely unaware of that?

Donald MacRae: WICS staff are our most important asset. We consider it essential to invest in our people, and that aids recruitment and retention. That is why, over the past eight years, we have invested an average of 1.5 per cent of revenue per year on all types of training, from cyber resilience to management development. It is important to benchmark those figures. For the past eight years, another major organisation and public body has invested an average of 2.5 per cent of operating income in training.

Executive education, which has been referred to, is a subset of overall training. The policy of paying for master of business administration qualifications for senior staff has been in place since 2004, and the policy was presented to the Scottish Government remuneration group in 2017. It was viewed as an aid to recruitment and retention. The tenure of analysts who did not have an MBA was 2.4 years, and the tenure of analysts with an MBA was 8.7 years. In other words, that policy was really effective, but let me give you the overall picture, because, over the past 20 years, four members of staff have been given that opportunity. Therefore, to me, that does not represent an excessive amount of investment in training.

However, taking account of all the comments that have been made about training and executive education, we have committed to a review of all training, and we are developing a training policy to which every member of staff can subscribe.

James Dornan: I do not think that anybody is criticising the fact that you spend money on training. It is very important that your staff are well trained and that they get everything that is required. The issue is whether you were doing a best-value audit on that spending. I am sure that, in most cases, you were, but there are some cases where that seems dubious. Why did you not have oversight of that spending?

Donald MacRae: I will answer the question about the particular case that has been questioned many times. I have accepted, personally and on behalf of the board, that we did not see a business case for that particular proposition. The policy was in place for a number of years, and, overall, we are in favour of investing in our staff and executive development. David Satti or Robin McGill might want to add something.

David Satti: I will go back to something that the Auditor General said in the first PAC meeting about this matter, which was that you can audit only what you can see. If someone's value judgment is, "I can make this decision without reference to anyone else", that is very hard to find in an audit.

James Dornan: I completely accept that, but how did you get to a situation where someone in your organisation was making decisions that seemed to be so far out of the norm?

Robin McGill: The culture and style probably evolved over time. We were also making interventions where we could see things that were not right. Earlier I mentioned the pilot project to completely rejig the expenses process that was used back in 2022. We were carrying out that work, but we were also dealing with what we were finding. I go back to the letter that Audit Scotland sent me in advance of issuing its audit report, in which it highlighted a number of matters that it had been made aware of, or had seen, which we had not and which we were really surprised about.

James Dornan: Mr Satti, you have now removed the retainer for the services of a King's counsel. Why is that retainer no longer required, and why was it in place for so long?

David Satti: One of the first actions that I took was to examine that retainer. For clarity, WICS had retained the services of a King's counsel and paid a retainer each quarter for those. Any commissions that were undertaken as part of the retainer were then conducted via our legal advisers.

I met those advisers not long after I was appointed interim CEO. Although a value-for-money case for such a retainer could have been made, I did not feel comfortable with having it and paying for services in that way. I understand that engaging a KC at that level costs thousands of pounds per hour. It involves not only bringing them up to speed prior to instructing them but incurring costs with the client's own legal advisers to bring them up to speed, too. If an organisation were to utilise the services of a KC frequently, a case could be made for having such a retainer. However, I did not think that WICS required such services at that level of frequency, so I decided to remove the retainer.

James Dornan: Okay. Thanks for that.

Donald MacRae: I add that that is a perfectly valid approach for the situation that WICS is in today, but the retainer arrangement had been in place for many years. The important point is that it was put in place not long after the formation of WICS, and indeed of Scottish Water, when absolutely top-notch business and legal advice would have been required instantly. A business case could well have been made at that point, but not so strongly now, which is why David made that decision.

James Dornan: I appreciate that, but is it normal for public bodies to keep a KC on such a retainer? That is a serious question, to which I do not know the answer.

David Satti: I could not say whether it is normal; I only know that, having looked at the facts, I could not justify it for WICS.

James Dornan: Thank you.

Robin McGill: I add that what WICS does is really quite unusual. Correct interpretation of the law is critical, particularly when changes are happening in our relationship with Scottish Water and how we go about doing our job. I am not sure whether that would apply to many other bodies of our size, but I know that what we do is quite complicated. Board members have had to spend a lot of time becoming amateur lawyers, trying to figure out how to navigate the law such as it is and how to ensure that Scottish Water delivers the best performance that it can.

James Dornan: Okay.

Donald MacRae: All of us on the board feel that it is our duty to ensure that we have the best legal advice on many issues—not only those surrounding the departure of the former chief executive but important matters of regulation, which is the main part of our business. I go back to my point that Scottish Water and WICS were set up not that long ago, and we needed to have access to that level of opinion easily and quickly. I believe that a business case could well have been made at that time, but not so much nowadays.

James Dornan: Okay, thank you. My final question is for Mr Satti and Mr McGill. It is about 3x1 Group, which appears to provide a public relations consultancy service. Is that correct?

Donald MacRae: Would you like to start, David?

David Satti: I am happy to. First, I reiterate my earlier point that we are a small organisation. We do not have in-house expertise to assist with a magnitude of press inquiries—or, thus far, we had never had to have such expertise. Therefore when the news broke about the section 22 report, the board's recommendation was to engage with specialist advice that could help us. We had that advice in place during the last couple of weeks of December and then we went out and procured further services for an initial period of three months. It was supposed to be for only that period, but we managed to stretch out the value of the contract pretty much until now, so we still have the services of that company.

James Dornan: So you received all the required approvals from the board. Was it a single tender contract or was it put out to competitive tender?

David Satti: We got quotes from various organisations and 3x1 Group, which is on the Scottish Government's framework, was seen as the entity that would provide the greatest value for money.

James Dornan: Okay. Thank you very much.

Donald MacRae: On behalf of the board, I confirm that it did request that the interim CEO go ahead with that procurement and that it went through all the required processes. I confirm, too, how valuable such advice has been in the past few months.

The Convener: Mr MacRae, you were very bullish there, saying that you needed the best legal advice. Did that go out to any procurement process?

Donald MacRae: David, I think that you can answer that one easily.

David Satti: Yes. We have a legal services framework under which we have a competitive tendering process for a six-year arrangement, which is the duration of our corporate planning period. The legal advisers that we have in place have gone through that tendering process, and the rates that we receive from that firm have been locked in for those six years.

The Convener: That is the firm of Shepherd and Wedderburn.

David Satti: It is—yes.

The Convener: Who were your previous legal advisers in the course of the past 20 years?

David Satti: I would have to come back to you on the position for the past 20 years, but I can confirm that Shepherd and Wedderburn were in place during the previous corporate planning period, too.

The Convener: But, Mr MacRae, you were answering questions in the context of the KC's retention. Did the position of the retained KC—formerly Queen's counsel—go through any tendering process?

Donald MacRae: David, I think that you can answer that. Frankly, you were there long before I was.

David Satti: The retainer was included in the review of transactions because, looking at our policies now, we would see it as being a single-tender purchase and therefore non-compliant. I am not aware of its having been put out to competitive tender. That was one of our reasons for removing the retainer.

The Convener: Was that the same KC throughout the 20 years, or did they change at any point?

David Satti: I would have to come back on the position over the past 20 years, but I know that there had been a long-standing relationship between the former CEO and that particular KC.

The Convener: What do you mean by a "long-standing relationship"?

David Satti: That that particular KC was seen as having the requisite legal expertise, which the former CEO utilised for more than a decade—perhaps close to two decades.

The Convener: If you have any more information on that, it might be useful.

Both our deputy convener and Graham Simpson want to come in with quick questions in this area. I will bring in Jamie Greene first, then I will come to Graham Simpson.

Jamie Greene (West Scotland) (Con): Good morning. I will stick with this line of questioning.

Mr Satti, I am just trying to get my head around the fact that a KC was on a retainer for a considerable period of time. It is unclear how that relationship came about: whether it was procured through due process or was simply a relationship on a one-to-one level between the former CEO and that individual. Nevertheless, that relationship endured. You said that you have since cancelled that on-going payment.

I am not sure whether you are able to share the approximate value of that contract, but I presume that it will pop up in some accounts. If you could let us know how much that is, that would be helpful. More importantly, does the contract's removal leave a gap in your ability to get proper high-level advice around the nature of the work that you are supposed to be doing? Will you have to go out and re-tender the work?

09:45

David Satti: As part of my assessment, I met the legal advisers. The way that the process works is that, if our legal advisers believe that they need those skills and expertise, they can subcontract and go directly to a King's counsel. If they so wished and the individual was available, they could go to the individual who was on retainer.

There is not a gap as such, other than the risk that the one particular individual—who has been used and understands the water industry—might not be available, either because he is doing work elsewhere or because he is conflicted.

There is not a gap as such. We can utilise the services of a KC if our legal advisers really feel that it is necessary in the future.

Jamie Greene: Was the Scottish Government aware of the fact that a public body had a senior counsel on retainer? Is that normal practice in public bodies, or is that abnormal?

Michelle Quinn: I am not aware of any other circumstance in which that is the case.

Kersti Berge: The DG and I were not aware that WICS had the KC on retainer.

Jamie Greene: Are you saying that, despite the fact that he was on retainer for a number of years, no one in the Government knew about it?

Kersti Berge: I was not aware of it and the DG was not aware of it. I am not aware whether there was awareness of it through our records.

Graham Simpson: How many KCs are on retainers under the public purse?

Kersti Berge: I am not aware of any.

Graham Simpson: We have heard of one, although that is no longer the case.

Kersti Berge: I can answer only within the bounds of my knowledge and I do not know of any.

Graham Simpson: I will ask about the PR agency 3x1. Mr Satti, you wrote on 11 June about a "drip drip" of headlines. Did you take on 3x1 to minimise that?

David Satti: We took on 3x1 because we do not have those skills and expertise in the organisation—and we have never needed them before. The way in which we regulate Scottish Water has always been behind the scenes. We are not a public-facing organisation and we tend not to deal with significant inquiries from the press. That is a skills gap for a small organisation. As an executive and as a board, we felt that we needed to fill that skills gap temporarily, given the press scrutiny that is under way.

Donald MacRae: It is about the press freedom of information requests and everything else.

Graham Simpson: Therefore, it is a temporary contract.

David Satti: Yes.

Graham Simpson: How much are you paying the agency?

David Satti: The contract that we had in place was for £30,000. We went through a procurement process, and the contract was initially supposed to be for the period of January to March, but we have managed to stretch that contract out until now.

Graham Simpson: Therefore, it ends now, does it?

David Satti: It ends now, but we are looking at whether we need to continue to have such services.

To go back to the conversation about novel and contentious expenditure, that was one of the areas where we, as an executive, thought that the matter was below the threshold for the board, but that it could be seen as novel and contentious, so we went to the board for approval and outlined the value-for-money case. That was discussed very recently and we will go out again to procure and make sure that we are achieving value for money.

Graham Simpson: I have one more question for now, and there will be others later.

In the same email in which you talk about the “drip drip” of headlines, you say:

> “WICS spent on average 1.5% of revenues on training (less than Audit Scotland I believe).”

I think that Mr MacRae referred to that. Do you think that it was appropriate to bring Audit Scotland into that email?

Donald MacRae: Are you asking me, Mr Simpson?

Graham Simpson: I am asking any of you, but please answer, Mr MacRae.

Donald MacRae: Being conscious of the need to benchmark, I was keen to establish figures from other public bodies because, as somebody has mentioned before, we have been asked how we compare to other public bodies. I thought that it would be useful to get a handle on that sort of figure and look at the level of investment that was made in training. That information was available from the annual report and accounts, and that is what I used. I am happy to be corrected if it was not right.

Graham Simpson: You did not use it—it was in Mr Satti’s email. I just wondered why he picked on Audit Scotland. Was it because Audit Scotland had written a damning report about WICS?

David Satti: I used that example in my email to Mr McGill, partly because of the conversations that I was having with the chair at the time. I was making Robin McGill aware of the discussions that were happening between me and Donald MacRae.

Robin McGill: We were casting around looking for how to benchmark our organisation. There was no ulterior motive, Mr Simpson. It was just information that we could get quickly—a point on a curve—so we thought that was fine and worth mentioning. We could go on and look at all the other public bodies, because it is all publicly available information.

Graham Simpson: It seems like a bit of a dig at Audit Scotland. Anyway, I will leave it there.

The Convener: Rather than steal Colin Beattie’s thunder, I will go straight over to him to ask questions about the staff training policy.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to ask about staff training, in particular the MBA situation. In WICS’s FOI response of 10 July this year, there was a copy of an approval form for a member of staff to attend the executive MBA programme at the London Business School on 8 May 2018, at a total cost of £119,300. The form states:

> “To support the further development of [redacted] the employment offer included the opportunity to obtain sponsorship for the completion of an MBA Executive Programme.”

That is important. It is in relation to the employment offer.

In its letter of 10 June to the director general net zero, the Scottish Government says:

> “the Scottish Government was aware from 2006 ... that WICS had a policy of funding MBAs for senior staff. In 2014 the Scottish Government approved a WICS Pay and Grading Restructure ... which included ... a fully funded MBA, available after 4 years’ service”.

In 2017, again, through a revised grading structure, the Scottish Government referred to

“senior members of staff being required to hold an MBA”.

Is the MBA part of the contract of employment? Were certain—or all—members of staff offered an MBA? If so, on what terms?

Donald MacRae: We have fairly full details on all those questions. As I have already said, over 20 years, four members of staff had that training. I have given you evidence to show that the training considerably improves tenure and enables us to have highly skilled and well-developed senior management.

David, can you give us a bit more detail about that particular course?

David Satti: I can. As Mr Beattie said, WICS has a policy, which is currently on pause, of offering that training to high-performing analysts, who have a minimum of four years’—although in reality, it is more—service at WICS, with two thirds of the cost of the MBA subject to a two-year lock-in. The basis of that policy was to retain members of staff. That was the process that was in place. In the past 20 years, four individuals have been offered that training.

In relation to your question about contracts, I would have to confirm the status of that. I am aware of some individuals having that offer as part of their contract of employment.

Colin Beattie: It seems to contradict the Scottish Government’s understanding, so I will ask the Scottish Government—perhaps Michelle

Quinn—what its understanding was. Did it understand that that was part of the contract of employment? Did it believe that there was a requirement for senior members of staff to have an MBA?

Kersti Berge: If I may come in on that, you are correct to say that the policy was in place in our records. Personally, the DG and I were not aware of that policy until June this year, but, having discussed it with WICS, our understanding is that it was part of its leadership development programme.

Michelle Quinn: Our assessment is that all staff in public sector organisations should have the training that is appropriate to allow them to discharge their roles effectively. That is not unusual in the public sector or beyond. However, the status of the MBA in individuals' contracts does not remove the duty to demonstrate best value and value for money in the procurement of an MBA. I would find it difficult to understand how an MBA at Harvard, for instance, was necessary when, potentially, you could obtain similar knowledge and skills closer to home and possibly in a better value way.

Colin Beattie: I come back to the question of the MBA. The approval form reads as though that member of staff accessed the course as a result of their contract of employment. I have been asking whether all contracts of employment for senior staff or staff above a certain grade offer that—that is not clear to me.

Michelle Quinn: We are not privy to those contracts in the Scottish Government.

Colin Beattie: In that case, I ask whether the contracts of employment specifically say that the member of staff is entitled to access an MBA course?

David Satti: I am aware of one contract of employment that stated that. However, at the moment, as standard, for analysts, that is not explicit in the way that you have just put it. We have had conversations with analysts about the MBA policy, and we have made it clear to them that the prospect of a fully funded MBA will not be promised going forward.

Colin Beattie: I will come back to that question again, because the Scottish Government's letter of 10 June refers to senior members of staff being required to hold an MBA. Is that the case? What is the definition of a senior member of staff? You are talking about analysts, but that could be anything—there are all sorts of analysts. Do they require an MBA to do their job?

David Satti: The MBA was seen as a way to progress the skills and expertise of individuals to prepare them for senior positions within an organisation, so—

Colin Beattie: So, has it never been a requirement that senior members of staff are required to hold an MBA?

David Satti: Historically, quite a number of individuals who have filled senior positions in WICS have not had MBAs.

Colin Beattie: Yes, but you are not actually answering the question. Is there, or was there, a requirement that senior members of staff—I am not sure what the definition of "senior" is—hold an MBA? That is the Scottish Government's understanding, so is that correct or not?

David Satti: I would have to confirm that. I do not know the answer to how it was done, specifically, in the past. I can say that WICS staff members who did not have an MBA have filled senior positions.

Colin Beattie: That still does not answer the question. I would be grateful if you could go back to check the records on that, because either the Scottish Government has got that completely wrong or there is something else that we really do not understand.

10:00

David Satti: I am happy to go back to check the record.

Donald MacRae: We can certainly come back to you with a definitive answer.

Colin Beattie: I also want to know whether employment offers included access to an MBA qualification as part of the contract. That is a whole grey area; we need to understand what the policies were and how they were executed, as well as how the communication between the Scottish Government and WICS operated. Was the Scottish Government fully informed of how you were operating in that respect? Those are all key questions.

I will return to WICS. The opportunity to obtain an MBA was supposedly essential for staff retention. Why was it considered to be appropriate to spend nearly £120,000 of public money to do that? I am talking about the specific case that has been quoted.

Donald MacRae: Can I clarify which case you are asking about?

Colin Beattie: The name is redacted, so I do not have that information, but it is the case in which the person went to the London Business School on 8 May 2018. It was included in your FOI response of 10 July.

David Satti: As part of the FOI response, we highlighted the actual costs rather than the costs that were approved. I was not part of that particular approval process, and it does not appear that the board was either. The actual costs that were highlighted as part of the FOI response were lower than the amount that you highlighted. That was the policy that was in place at that time, and two thirds of the cost were then subjected to a lock-in period, which the individual was liable for, should he—he or she—decide to leave within that two-year period—

Colin Beattie: How long was the lock-in period?

David Satti: It was two years.

Colin Beattie: That is not a long period for the expenditure of £120,000.

David Satti: We have already admitted that WICS needs to do a lot more in demonstrating value for money in all training and in all that it does. Such proposals would be required to be approved at every level within the executive but also at board level to ensure that we are demonstrating value for money going forward.

Colin Beattie: I am still focusing on the money, because, even if it is WICS's policy to cover travel and accommodation costs for courses, how is it good value for money to choose a course that involves £35,000 of public money being spent on travel and accommodation? That is a huge proportion of the cost and a lot of money.

David Satti: I agree with you. I—

Colin Beattie: Was it your policy at the time to cover all those costs?

David Satti: It was the organisation's policy at that time to cover the costs. Those were not the costs that were then incurred in this particular instance, but WICS fully accepts the need to demonstrate value for money and, when choosing institutions, to fully factor in elements such as travel and subsistence expenditure, particularly when there are courses available in Scotland for which travel and subsistence costs would not be as high.

Colin Beattie: I presume that the travel and subsistence costs were properly signed off.

David Satti: If they were not signed off, they would have been deemed to be non-compliant expenditure, and the audit and risk committee would have had sight of that.

Colin Beattie: Who would have signed it off?

David Satti: It would have been signed off by the line manager at that time.

Colin Beattie: What level was the line manager?

David Satti: The line manager at that time would have been the former chief executive.

Colin Beattie: Normally when I hear "line manager", it is the boss of the unit, the department or whatever, but it is a very small organisation. So, the chief executive signed that off. Okay. Was it within his powers to do so?

David Satti: It would absolutely have been within his powers to sign off individual expenditure on travel and subsistence. If the approval form that you are talking about was ever close to getting approval in WICS today, it would have to be signed off not just by the executive but by the board and the Government.

Colin Beattie: At the time, was the chief executive empowered to sign off up to any limit?

David Satti: As part of our governance framework, if something has been competitively tendered, the threshold is £100,000, and if it is a single tender purchase, it is £20,000. The thresholds have been reduced for board approval versus Government approval. At the time, £120,000 was the threshold for a single tender purchase.

Audit Scotland highlighted when it provided evidence on the course in 2022-23 that it did not feel that the business case or the approval form were robust enough and therefore the single tender purchase threshold applied. I would say that the same would apply to this one as well, in that the lower threshold should have applied and that the board should have got sight of that and the board, and, indeed, the Scottish Government should have approved it.

Colin Beattie: Do you agree retrospectively that it was inappropriate?

David Satti: Looking back, I agree. I was not part of the approval for that one. What I can say, Mr Beattie, is that under the processes and controls that we have in place now, the approval of the board and of the Government would be required.

Colin Beattie: I will cover a couple of other things on the MBA side. On 31 July 2024, the director general net zero confirmed that he is

"not aware of any other public bodies in Scotland that require senior staff to hold MBAs".

What is so different in WICS that senior staff are required to hold MBAs?

I am still curious about the meaning of the word "analyst". I do not know whether that is a high-level post or a lower level one.

David Satti: The 2.4 years that Donald MacRae referred to was in relation to entry-level analysts, so we are talking about an analyst that has spent between four and six years in the organisation and has had progression; they have managed to move from analyst to senior analyst and perhaps even to manager.

Why would WICS require MBAs? The regulatory functions of WICS require specialist skills and expertise, and MBAs are one way of delivering that, but there are multiple other ways. We are considering our training policy just now, and that is the question that I am asking. How do we ensure that we make our staff as capable as possible while delivering the best possible value?

Colin Beattie: Knowing what is in an MBA, it is hard to see how an MBA is particularly appropriate as a medium to upskill people who are working as analysts in WICS.

Donald MacRae: I will come in there and say that you have to take account of the wider picture, Mr Beattie. We all know that Scottish Water is publicly owned. The water industry in the UK is different, and in order to be part of that UK market, we have to be able to make comparisons with the private sector. It is very important that any analyst is able to look at the accounts, for example, of private sector water companies in England and Wales from the point of view of their being private sector. We make comparisons between water companies all over the UK, so it is very important that analysts understand corporate thinking. Having an MBA is not absolutely required to do that, but it is very important.

Robin McGill: I have been looking into the Harvard course in a bit more detail, now that I am aware of it. We are using the term “MBA” and everyone will have in their head a different image of what that means. It will mean lots of different things, depending on what institution you go to. In this case, it was an executive business education MBA, and the modules that were chosen by the individual were definitely related to economics and economic regulation. I am not sure that that happened in every case, because I have not looked at every case, but I am certain that relevant training and knowledge were gained on the Harvard course.

Colin Beattie: To put to bed the issue of the MBA programmes, have you completed your human resources review of policies and procedures, which you said would include a full review of staff training and the policy of funding MBA programmes? Has that been completed?

David Satti: No. That review is under way. One of the first steps that I took on coming into post was to bring human resources into WICS. It is the first time that WICS has had dedicated in-house HR support in many years. As part of that work, we are looking at all policies, including the training policy.

That work is under way at the moment. In the meantime, we have made it clear to individuals what the direction of travel in the organisation is—in other words, that we are focusing on delivering value for money. We must enable staff to have the skills that they need, but we must do that in a way that, as a public body, we can justify.

Colin Beattie: Do I have time to carry on?

The Convener: No—you should never have asked that question, Colin—but I will bring you back in, if time permits.

Jamie Greene: I will close off the issue of executive training by referring to correspondence from the former COO to Donald MacRae, Robin McGill and David Satti. I was quite surprised when I read the email chain from March 2024, in which the former COO expressed the view that they had requested a much cheaper, more local option for advanced management training, but there seemed to be an insistence on the use of North American institutions such as Harvard, Yale and Stanford. Why was that?

Donald MacRae: I will start the answer to that. The board did not have sight of the proposal, as I have said. It is absolutely true that the former CEO had a—how shall I say this?—high degree of admiration for North American business schools. If he were here himself, I am quite confident that he would state that, but I cannot speak for him completely.

All that I can say is that the choice of a North American business school does not quite fit with what I would have liked to have seen. I would have liked better-value-for-money alternatives to have been explored. That could have been possible. I quite accept that the business case was insubstantial. Audit Scotland commented on that, and I agree with that. In future, we will make sure that a business case, if one is produced, is robust and to the point.

David, do you want to follow up on that?

David Satti: I would like to clarify that we are not talking about the former CEO. The CEO is still in post. For the record, there has been no departure there.

Even in a call between me and the former CEO on 17 November, I was being convinced to go on a course in the US. That would never happen for me personally, but I can confirm that there was a preference for US institutions.

Jamie Greene: I am happy to correct the record—I was referring not to the former CEO but to the current COO.

David Satti: Yes, the current COO.

The Convener: The chief operating officer.

Jamie Greene: I am specifically not mentioning names, because our lines of questioning are about processes and practices, rather than individuals and personalities, and I want to stick to that.

Let us talk about the former CEO's position and departure—I am sure that you will be expecting this question to come up. When did the former CEO get sight of the section 22 report, and what was his reaction to it? Does anyone recall?

10:15

Donald MacRae: I cannot give you an exact date on which anybody was made aware of the section 22 report, but perhaps David Satti has a better memory than I do.

David Satti: I would have to come back to the committee with the exact date. However, to answer Mr Greene's question, I think that the email that had appended the section 22 report was to inform the sponsor division of the section 22 report. I think that it was on the Monday, Mr Greene, and I can remember phoning the then deputy director on the Friday to make clear of the section 22 report, having realised that there was no correspondence between the former CEO and the sponsor team. That was in early December, but I would have to get the exact date for you.

Jamie Greene: The former CEO resigned as a result of that report. That is what it says in an email from Mr MacRae to you, Mr Satti, on Wednesday 20 March. It states:

> "David,
>
> As you are aware, the CEO tendered his resignation in December following the pending Section 22 report from the Auditor General."

Your view is that the section 22 report was the trigger for his resignation.

Donald MacRae: The former CEO resigned, stating that he felt that he had set up WICS and had worked there for 24 years, and that he had outlived all that he could do for WICS, and that he therefore tendered his resignation. There was no specific linkage to the section 22 report.

Jamie Greene: You made the link, though. Why is that?

Donald MacRae: I am sorry?

Jamie Greene: You made the link. I have it in front of me.

Donald MacRae: In my email, I stated that it was "following"—that does not mean that there was a link.

Jamie Greene: It states here, in an email from you to Mr Satti, who is sitting to your right, that

> "the CEO tendered his resignation in December following the pending Section 22 report".

Was there a causal link between the section 22 report and his resignation?

Donald MacRae: The words are accurate—following that, he did resign.

Jamie Greene: What is your opinion on that?

Donald MacRae: You would have to ask the former CEO why he resigned. I do not have an opinion on it. Why—

Jamie Greene: Do you think that it was related—

Donald MacRae: I am sorry?

Jamie Greene: Do you think that it was related to the content of the section 22 report, which clearly highlighted a number of the issues that the committee is interested in?

Donald MacRae: I received his resignation. I then had a board meeting, and the board considered his resignation but also considered—well, I will go back a bit. We considered his reaction and the executive's reaction to the section 22 report. We were in the process of considering how good that reaction was and how effective it would be. We had not come to a conclusion. At that point, he resigned.

Jamie Greene: What options did the board consider, other than accepting his resignation?

Donald MacRae: If you would allow me, I would like to give you some extensive detail on this.

Jamie Greene: We do not have a lot of time, so—

Donald MacRae: Yes, but you asked me a question.

Jamie Greene: Yes, but you could summarise the options that were open to you, so that we can get to how you came to the decision that you made.

Donald MacRae: The board decided to accept his resignation after extensive discussion of all the options, which have been laid out in detail in the business case, of which you have a full copy, including a detailed value-for-money set of calculations, which show clearly that the option that we chose produced the best value for money.

You have a copy of that. We have redacted only 125 words out of a total of 2,494. A number of options were looked at. For example, the option of dismissal, which has been discussed, would have incurred twice the cost of the option that we chose. However, I would say that there were no grounds for gross misconduct. We took extensive legal advice on all the options, and the option that we chose was very clearly justified in the value-for-money calculations, which I hope that you have seen.

Jamie Greene: I want to backtrack a little. Were dismissal and gross misconduct the same option or separate ones?

Donald MacRae: There could be dismissal without there having been gross misconduct. There was no gross misconduct. There could have been dismissal, but that would have required payment of a 12-month salary, which would have been considerably more than what we eventually agreed. That option, in terms of value for money, would have been twice as expensive as the one that we chose.

Jamie Greene: Who decided that there were no grounds for gross misconduct?

Donald MacRae: The board discussed that, and we took evidence from our legal advisers, including specialists in employment law.

Jamie Greene: A fairly damning Audit Scotland report highlighted that tens of thousands of pounds were spent, using a corporate credit card, on lavish meals, first-class travel, fine wines and so on, with no accountability and no approval being sought. Are those not grounds for dismissal?

Donald MacRae: There was no evidence of gross misconduct.

Jamie Greene: Talk me through what happened next. The options were debated, and I understand that the option that was chosen was a settlement agreement. Is that correct?

Donald MacRae: If you will allow me, convener, I would like to explain that.

The Convener: Yes—as long as you are not going to read out a rehearsed contribution. We would like you to answer the questions that we are putting to you, Mr MacRae.

Donald MacRae: I am going to answer the question. The CEO's contract required him to give six months' notice. Rather than that, the board decided that we would pay him six months of his salary in lieu of his working his notice, which was his contractual entitlement, provided that—this is the key point—he departed by 31 December.

You are really asking why we had a settlement agreement. The departure date of 31 December was guaranteed by the settlement agreement. It allowed the WICS board to quickly refocus on value for money and produce an action plan to respond to the section 22 report. It allowed the board to proceed with the process of appointing an interim CEO and changing the culture, which we have heard quite a bit about. It protected the interests of WICS and achieved best value. That was demonstrated in the 10-page business case, with accompanying full calculations, that we submitted, with only a very small amount of the report—125 words out of 2,494—redacted.

Jamie Greene: Let us go through this in a logical order. That is important, because I am trying to get to the nub of the decision making. After coming to that conclusion, what happened next? Did you seek approval from the Scottish Government, in accordance with the Scottish public finance manual?

Donald MacRae: We took external legal advice, which confirmed that the board had the power to make the agreement. Although we did not need to, as confirmed by legal advice, we sought approval from the sponsor team for that approach. The approval was given in a phone call involving the deputy director in the senior sponsor team, a fellow board member and me on 19 December, and it was confirmed in a second phone call between the deputy director and me on 20 December. The deputy director had contacted the Scottish Government pay unit, and he used the words, "You can do this."

Jamie Greene: Was any of this in writing, or was it all done over telephone calls?

Donald MacRae: It was done over two telephone calls. The first was with me and a fellow board member, and the second was with me. On the same day, a Scottish Government spokesman announced that the CEO had resigned, using the words "with immediate effect". Therefore, clearly, the deputy director had been in touch and communicated the board's approach of paying the CEO six months of his salary in lieu of his working his notice, provided that he departed by the end of December. The deputy director advised us to take legal advice. We went ahead and drew up the settlement agreement. The reason for doing that was to guarantee the CEO's departure by the end of December and to protect the interests of WICS.

When it came to the payment, which was supposed to be in the third week of January, although we did not need to, we contacted the deputy director again for approval of the payment.

The response, from one of his team, asked for a business case. A business case was then sent to the Scottish Government, and the response was received from the cabinet secretary eight weeks and one day later, on 15 March. In the interim, we had verbal confirmation from the deputy director that WICS had the powers to act as it had. We also discovered—

Jamie Greene: I am sorry, but I will stop you there for a second, because there is a lot in this. Did the Scottish Government approve the business case or not?

Donald MacRae: You would have to ask the Scottish Government—

Jamie Greene: Okay, let us ask the Scottish Government—

Donald MacRae: —and the cabinet secretary.

Jamie Greene: Did you approve the business case or not?

Kersti Berge: I will take that question. The business case was submitted after the settlement agreement was signed. Scottish Government did not have a role in approving the business case; we had a role in providing views on it. The nature of the departure of the CEO was an issue for the chair and the board, but, in the settlement agreement, the Scottish Government's role was to provide views on the case.

Jamie Greene: How can you provide a view on a business case that has been presented to you after the deal has been done?

Kersti Berge: That is quite difficult.

Michelle Quinn: That is correct. The chronology is important. Clearly, the views of the Scottish Government should be sought prior to entering into a firm legal agreement of that nature. The then cabinet secretary was very clear about her extreme disappointment that due process had not been followed in that respect and that the Scottish public finance manual had not been complied with.

Jamie Greene: The payment was made; it was too late—the ship had sailed—so WICS or the board or someone within WICS came to the Government looking for retrospective approval of a business case for something that had already happened. Is that correct?

Michelle Quinn: My understanding is that it was a request for retrospective approval of the payment that followed the legal arrangement that had been entered into.

Jamie Greene: The letter in March from the Cabinet Secretary for Wellbeing Economy, Net Zero and Energy—Ms McAllan at the time—to you, as the chair, Mr MacRae, is quite damning. Do you have it in front of you?

Donald MacRae: I know the content.

Jamie Greene: Okay, so let us look at the letter. First, the cabinet secretary seems to imply that she is pleased that the CEO has exited with immediate effect,

"given the nature of the serious failings that were identified".

However, she says that it has been brought her attention that,

"in choosing a Settlement Agreement to conclude the departure ... the Board failed to follow due process."

I will repeat that: the board failed to follow due process. Do you accept that the board failed to follow due process?

Donald MacRae: I have given you the timed series of events—

Jamie Greene: Yes, I know that, but do you accept—

Donald MacRae: I can go through those again—

Jamie Greene: You are welcome to push back on the cabinet secretary's comments, but do you accept her comments and agree that you failed to follow due process?

Donald MacRae: We and I followed the process in that, as I have given you the evidence for, we had confirmation of the approach on 19 and 20 December and we then applied the business case for the payment. That was written up and supplied to the Scottish Government, and we had a response from the cabinet secretary, as you suggest.

Jamie Greene: Okay, so you do not accept that the board failed to follow due process. You think that you followed due process—just to be clear.

Donald MacRae: I believe that we acted in everybody's best interests and achieved a result that proved to be the best value for money. I have evidence that we received approval from the deputy director on 19 and 20 December for the whole approach, including the departure date of the end of December, which could be guaranteed only by a settlement agreement.

Jamie Greene: It is quite unusual for the chair of a board of a public body such as this to take umbrage with a Government cabinet secretary on their assertion that the board has not followed adequate processes for such settlements. Indeed, your evidence this morning seems to push back on that and to be expressed in rather defensive terms, rather than accepting that failings occurred. Why is that? It is unusual.

Donald MacRae: I had verbal confirmation of approval of the approach from the deputy director, which was reconfirmed by a fellow board member.

Further, I suggest that the public finance manual could not have been followed, because the business case had to be signed by the accountable officer. In this instance the business case was about the accountable officer. That was one issue.

Another was that we had firm legal opinion, from both our legal advisers and the Scottish Government, that, even if the business case had not been approved, the public body could go ahead and make the settlement agreement and make the payment.

10:30

Jamie Greene: Ms Quinn, are you satisfied with that response?

Michelle Quinn: I will ask my colleague Ms Berge to come in in a minute.

My understanding is that the conversation on 19 December, to which I was not party, referred to the resignation of the former CEO. I think that it was accepted that the former CEO would resign. I understand, too, that the matter of a settlement agreement was not presented to the Scottish Government until January, which was subsequent to the arrangements that have been discussed.

The public finance manual is clear in requiring the Scottish Government's views to be sought before the details of a settlement agreement are agreed or offered to an individual—I stress that it is not just before an agreement is signed but before terms are offered. The manual is absolutely explicit in that regard. I suggest that, in the event that individuals felt that it could not be complied with, it would be a matter of good governance to come back to the sponsor and receive advice on what they should do in that instance. That did not happen before the settlement agreement.

Jamie Greene: It did not happen.

Michelle Quinn: It did not happen before the settlement agreement. That is my understanding.

I will ask my colleague Ms Berge to come in.

Kersti Berge: I can confirm that. Again, this was said in a conversation that I was not personally involved in, but my understanding is that the Scottish Government, via the deputy director, confirmed that WICS was entitled to pay the former CEO contractual terms in lieu of notice. I am not personally aware whether the conversation or any assurances went beyond that, because, as I said, I was not involved in that conversation.

Jamie Greene: Does all that not paint a picture of there being wider issues? There are two, in particular. One is the board's oversight of what was going on at WICS at an operational level. The other is the breakdown in the relationship between the sponsoring division of the Scottish Government and the board itself. I will ask each of you to comment on those.

I will come to Mr MacRae first. Given the content of the section 22 report, including numerous references to matters such as patterns of culture and behaviour, which clearly did not happen overnight but had developed over a period of time, how did it come to this? How did we get to a scenario where we needed a section 22 report, the involvement of external auditors and the resignation of a CEO for things to change? What on earth was the board doing for all those years?

Donald MacRae: I will ask Robin McGill to comment again, too, but I will start by going back to the agreement that was signed. I reiterate that I talked to the deputy director and received approval for the process, and I had that confirmed on the following day, 20 December.

The CEO's first meeting was with me and a fellow board member. At that time, we formed a clear view that we had communicated that a departure date at the end of December was essential. That was well understood by the deputy director at that meeting. The settlement agreement was designed to guarantee his departure by the end of December, which was acknowledged by a Government spokesperson just prior to that.

I, and the board, did not find any evidence of gross misconduct. We had questions about the CEO's ability to instigate change as a result of the section 22 process. That was a factor in our coming to the view that we should accept his resignation.

Jamie Greene: So the section 22 report was the trigger for you to have concerns about culture and behaviour at WICS. Did nothing that happened before that raise any red flags?

Donald MacRae: The board had no reports from Audit Scotland, for example, up until the end of December, and we never had any accounts qualified in any way. We also had no reports from internal audit about any issue with expenses or the sort of behaviour that you just talked about.

We had evidence from various staff surveys that work was needed to improve communications, that a better attitude to value for money was required and that we needed to tidy up the expenses process. All that was in train at the time.

Jamie Greene: It was described in open correspondence as a "toxic environment".

Robin McGill: That was from an individual within the organisation.

Jamie Greene: A senior individual?

Robin McGill: Yes. Everyone is entitled to their own opinion, and no one sitting here is saying that it was all perfect—far from it. You have to go back to our reaction. As I said, back in 2022, we were on the case on expenses; we were trying to get the expenses process in line, and get everyone, including the CEO, between that set of lines.

As the chair of the ARC, my whole time was spent trying to introduce stronger processes, better accountability and tracking of actions and things to get to that point. I think that you have heard evidence that the CEO's interpretation of some of our policies would not have been the same as the board's if we had been aware of that interpretation. You present it that we were all just sitting there waiting on the section 22, but we were already in action. We were already working hard to improve working relationships and improve the things that we thought were deficient.

Richard Smith spoke to me back at the end of October prior to the section 22. It was quite unusual for an auditor to call up and ask for a meeting. We had a meeting and he laid out a series of things that he described as a pattern of behaviour, and the behaviour concerned me. When the section 22 came through, we as a board jumped on that hard. My initial reaction was to get Grant Thornton and say, "I want an internal audit. I want to go right down to the last squeal in the pig to find out what on earth has been going on," because previous audits had not.

We knew that we had minor issues here and there, which is why we adjusted the expenses policy, but we did not know the full extent of it. The document that was created by WICS has been the source document for Grant Thornton and external audit to have a full audit of every single transaction rather than a sampling audit. It was quite unusual.

That generated a lot of action. The board called in the leadership and said, "You need to go away and come back with a strong response and action plan." That was the genesis of the action plan that David Satti has been following with his staff. He is doing a great job. Basically, we had everything up, we had the drains up and everything is being changed, so hats off to the staff for what they have done over the past six to nine months.

That was our response. That was what we called phase 1. The second phase was much more about dealing with the issues that were left based on the culture that the CEO established. That is why we reacted. We were already concerned, but not so concerned that we were going to haul him in and sack him—we did not have the evidence or basis for that, but there was a pattern of behaviour. His reaction to the section 22 was, "I am going to choose to resign." We thought, "Okay, let's talk through that," and Donald MacRae and the board navigated through that process.

Jamie Greene: Thank you for that update. In the interests of time, my final question is to the Scottish Government. Responsibility for public bodies and the oversight of the boards that oversee the public bodies is a matter for the sponsor division, the director general of those directorates and, ultimately, ministers and cabinet secretaries. It sounds like there has been a catalogue and a litany of extreme failures of fiscal governance across a taxpayer-funded body. When did the Scottish Government think that things were going wrong at WICS? When did it get an idea that there were issues? Was it solely the work of Audit Scotland that raised those flags?

Michelle Quinn: I will answer first and then I will bring in my colleague Kersti Berge. It is important to recognise how accountability is set out here. The public finance manual is clear on the accountability of different individuals. Furthermore, the WICS framework document is clear that the chief executive, as accountable officer, and the chair are personally accountable to Parliament.

The board has a number of responsibilities, including

"ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control."

I am quoting the framework document. In doing that, the board must

"demonstrate high standards of corporate governance at all times, including openness and transparency in its decision making."

Clearly, that did not happen. Over and above that, the chair has responsibility for the performance of individual board members, including the chief executive. The document states:

"Individual Board members should act in accordance with the responsibilities of the Board ... and comply at all times with the code of conduct adopted by WICS and with the rules relating to the use of public funds".

Our then cabinet secretary, in the correspondence in March that you mentioned, referred to a "recurrent breach of process". That is what we have seen here, specifically with reference to the settlement agreement that you referred to earlier—

Jamie Greene: I apologise for interrupting but, if the Scottish Government's view is that there is a recurring breach of the governance framework and major issues from the top down, can you not do anything about it? Is there no recourse in a case of such constant breaches?

Michelle Quinn: We are currently undertaking a number of reviews. I will ask Kersti Berge to discuss that with you. However, it is clear that the board had a duty of transparency and openness that it was not delivering on.

Kersti Berge: We have commissioned an independent review of WICS, which is considering the factors that gave rise to the issues that we have seen and which we have discussed today. That will enable us and indeed WICS to determine whether any further action is required as a result.

You asked about WICS but also about the relationship between WICS and the Scottish Government. I think that we all have lessons to learn from what has happened. There were shortcomings in the way in which we carried out our sponsorship function in relation to WICS. Part of the sponsorship function is to provide support to the organisation, but part of it is also to provide constructive challenge, and there were instances where we did not do that.

We have made a number of changes to how we carry out our sponsorship arrangement. We took immediate action after the section 22 report and put in place much more formalised and robust processes. Regular engagement has come in between the DG, me, the chair and the interim CEO. We have been setting out clear roles and responsibilities within the Scottish Government. We have made sure that everybody has done the training. Part of that training is about processes and procedures, but it is also about the culture and the way in which we challenge the organisation. That is really important.

I have some personal reflections. As the director who is responsible for the area, I recognise that I should have provided more assurance and oversight to WICS. However, I go back to what the DG said about accountability in the first instance. It is not the Scottish Government's job and role to scrutinise all elements of expenditure and training, but we want to ensure that the proper governance and processes are in place and that, when risks and issues such as the ones that we have talked about today arise, they are flagged to the Scottish Government and are discussed openly with the Scottish Government. Lessons have been learned for us as well. We have worked very hard and have put in place a number of changes to make sure that we have robust and confident strategic sponsorship, and we have reset our relationship with WICS in that respect.

Jamie Greene: I am grateful for your humility in that respect.

10:45

Michelle Quinn: I will complete that, if I may.

The Convener: Very briefly.

Michelle Quinn: Our focus now is very much on ensuring that we have a sound system of internal controls in place in WICS, that the organisation is focused on delivering best value and—after what we have learned through this whole process—that it is underpinned by a culture of openness and transparency. Similarly, we are focused on ensuring that there is a culture in which the constructive challenge and support that are provided through our sponsorship function can comfortably co-exist in that space, and that the culture is one in which all of that is accepted.

The Convener: In the interests of time, we will move straight to Graham Simpson, who will ask the final round of questions.

Graham Simpson: I want to follow up on Jamie Greene's line of questioning, because there were aspects that, in my view, were not fully answered.

Mr MacRae, Jamie Greene asked whether you accepted, in relation to the letter from Màiri McAllan, that the board failed to follow due process. That is a straight yes or no question. Did you fail to follow due process?

Donald MacRae: I got permission and approval from the deputy director on 19 December and 20 December, and I acted—and the board acted—on that. You can ask my fellow board member whether I did all of that.

Graham Simpson: No, I am asking you. Did you fail to follow due process?

Donald MacRae: I got permission from the deputy director on 19 December and 20 December, and I followed up with the settlement agreement.

Graham Simpson: You have said that several times. In your view, is that due process?

Donald MacRae: In my view, I did the right thing and followed the correct process in getting approval from the sponsor team for our actions.

Graham Simpson: Was that in relation to the settlement agreement?

Donald MacRae: I made it very clear during that discussion that we were going for an agreement that would mean departure by the end of December. That was part of the conversation.

Graham Simpson: Ms Quinn, that does not seem to be your understanding.

Michelle Quinn: That is not my understanding. My understanding is that what was discussed at that point was that the contractual terms would require six months' salary to be paid. I was not privy to the conversation, but my understanding is that "a settlement agreement"—that phrase and the methodology of that terminology—was not discussed or presented to us until January.

Graham Simpson: Mr MacRae, you are saying that that is not correct.

Donald MacRae: I am saying that I got permission from the deputy director on 19 December and 20 December.

Graham Simpson: Are you saying that Ms Quinn is wrong?

Donald MacRae: I am saying that I got permission from—

Graham Simpson: Are you saying that Ms Quinn is wrong?

Donald MacRae: I got permission from the deputy director on 19 December and 20 December.

Graham Simpson: Is she right or wrong? Is her version of events accurate?

Donald MacRae: You would have to ask the deputy director, who is not here.

Graham Simpson: I am asking you: is that version of events accurate?

Donald MacRae: I have given you what I did and what discussions we had on 19 and 20 December.

Graham Simpson: Right. I afraid that you are prevaricating, Mr MacRae.

Donald MacRae: I have given you the truth and told you the actual events that happened.

Graham Simpson: Well, you are not answering the questions.

In her letter, Màiri McAllan referred to a "recurrent breach of process". Do you accept that there were recurrent breaches of process?

Donald MacRae: I have asked for confirmation of what was in that letter. You would have to ask the Scottish Government or the cabinet secretary for confirmation of what was actually meant.

Graham Simpson: Well, you have heard already—

Donald MacRae: It is not up to me to interpret what the cabinet secretary says.

Graham Simpson: Do you accept that there were recurrent breaches of process?

Donald MacRae: It is not up to me to accept or, rather, interpret—

Graham Simpson: You are the chair of the board. Were there recurrent breaches of process?

Donald MacRae: I do not know what was meant by that letter, but I suggest that you—

Graham Simpson: Well, let us ask the Government. What was meant, Ms Quinn?

Michelle Quinn: The letter in itself is clear. It says:

> "In particular, I note that in choosing a Settlement Agreement to conclude the departure of the former CEO, the Board failed to follow due process."

Graham Simpson: That is pretty clear. What is your response to that, Mr MacRae?

Donald MacRae: My response is that I followed a process of gaining approval on 19 and 20 December, and then followed that up with a settlement agreement and a business case for that. That was all done following the manual, in as much as it was able to be followed.

Graham Simpson: Does the Scottish Government still have confidence in Mr MacRae as chair of the board?

Michelle Quinn: My colleague mentioned that we are doing a full review of WICS at the moment. I do not want to prejudge the outcome of that review, but we will consider all these matters in the round once we have concluded that review.

Graham Simpson: Do you have the power to remove a board chair?

Michelle Quinn: As I said, we will revert to you—

Graham Simpson: Do you have the power?

Michelle Quinn: I would need to come back to you on that.

Graham Simpson: So you are not sure whether you have the power.

Michelle Quinn: I will come back to you on that.

Graham Simpson: Okay. Mr MacRae, have you considered your position?

Donald MacRae: I have considered my position many times over the past number of years.

Graham Simpson: But you are still in post.

Donald MacRae: I have not had any indication from anybody that I have done any gross misconduct.

Graham Simpson: Okay, and you do not think that the former CEO was guilty of gross misconduct. Did he do anything wrong that would have merited his leaving the organisation?

Donald MacRae: Nobody has a perfect record, including myself. I am quite sure that everybody will have done something "wrong"—I put that in inverted commas—at some point. I accept that the former CEO did very well in many areas of economic regulation, but there were certain areas, particularly with the culture, where there were question marks. In particular, there were question marks over how he would react to making the change that was required after the section 22 report.

Graham Simpson: You said earlier that you did not think that there was any link between his resigning and the section 22 report.

Donald MacRae: Yes. I said that, and I still hold to the view that the board as a whole was looking at his response to the section 22 report—we were in the middle of doing that and considering how effective that would be—when he offered his resignation. We had not come to a view, and you can ask my fellow board member to confirm that.

Graham Simpson: Are you telling us that, when the section 22 report came out, there was no conversation with the former CEO? You did not go to him and say, "Look, this is damning—it really looks bad for you. Don't you think it's time to walk the plank?" There was no conversation like that. He just resigned.

Donald MacRae: We had extensive consultations with the CEO at board level, and the CEO was asked, along with the executive, to produce a reaction to the section 22 report and set out what changes he would instigate. That took a period of time. During that time, I received his resignation. Then the board went ahead, as I have outlined.

Graham Simpson: Was it suggested to him that he might want to resign?

Donald MacRae: The board was considering his reaction, and—

Graham Simpson: No. I asked you whether it was suggested or talked about when you spoke to him that resignation might not be a bad idea?

Donald MacRae: I am not aware of any particular conversation that I had, for example, with the CEO, which said, "You should resign." I was very conscious of the fact that we had a section 22 report, and we had asked for a reaction to that. That is what the board was considering when his resignation came in.

Graham Simpson: If it was your view that, actually, he was a good guy, he had done nothing wrong, there was no evidence of gross misconduct and you just happened to have this report from those pesky people at Audit Scotland, when he handed in his resignation, why pay him anything?

Donald MacRae: There was no evidence of gross misconduct. There was evidence of behaviour that we wanted to examine and find his reaction to.

Graham Simpson: So there was evidence that he had failed.

Donald MacRae: There was evidence of behaviour that we were questioning, particularly his reaction to the section 22 report and the changes that we wanted him to introduce. In the middle of considering all that, he offered his resignation.

Graham Simpson: I have another question, which is for Mr McGill. It relates to an email that you sent on 11 June. It says, and I am just going to read the whole paragraph:

"I know enough to understand the recipients of these MBA/Executive training courses did nothing wrong, so no implied criticism from me. As you say"—

the email was to Mr Satti—

"other less well informed people (with agendas) may profess to see it differently."

Who are you referring to?

Robin McGill: Well, you just have to open the papers day after day after day to see that people were taking a few dots, really joining them up and coming up with some huge issue. My concern when I wrote that email was that, in the middle of all of this, there was one woman in particular who was getting hounded at her front door, through no fault of her own, and a whole bunch of staff in WICS who were kind of hunkering down, with their tin helmets on. That is what I was referring to.

Graham Simpson: But who were these

"less well informed people (with agendas)"?

Robin McGill: Well, they obviously had an agenda, because, in my opinion, they were writing articles and headlines that did not reflect the truth. Although we had given them all the information with FOIs and everything else, they chose to represent what happened in a certain way. I would call that having an agenda—I do not think that that is an unreasonable statement to make.

Graham Simpson: Are you talking about the media?

Robin McGill: I said just a minute ago that I was talking primarily about the media.

Graham Simpson: The media?

Robin McGill: Yeah.

Graham Simpson: So the media were "less well informed" and they had an agenda, according to you.

Robin McGill: They were extremely well informed. What they chose to publish would suggest that maybe they were not that well informed, so my conclusion was that, after we had given them all the information and they chose to publish that, they had their own interpretation of what they had been given.

Graham Simpson: Of course they were going to publish it—it was pretty scandalous. It is a story, so it is going to get published.

Robin McGill: It is absolutely a story.

Graham Simpson: Absolutely. So, that is not an agenda—that is just people doing their jobs, is it not?

Robin McGill: Okay; all right—then they represent their job in one way. I was concerned primarily for the staff and what was happening to the individual concerned, which I think was unfair. However, that is what happens when these things happen. We did not ask for it, we do not want it and we are doing everything that we possibly can to make sure that nothing like this happens again.

Graham Simpson: Perhaps that is why you needed the advice of 3x1 or somebody like it, so that you did not make those assertions again.

I am going to ask whoever wants to answer this question about the Grant Thornton audit, which I thought was pretty revealing. Those auditors examined only a sample of items of expenditure—not everything—and only 53 per cent of what they looked at complied with procedure. How did we get to a position where just over half—well, let us say half—of things did not comply?

Robin McGill: The criteria that they used to select those transactions were different to the criteria that we had used in our analysis. We gave them everything. Having been in receipt of everything, they chose to look at a particular, very small subset, and, yes, that subset had a higher proportion of non-compliance than every other transaction. Ninety-seven per cent of transactions were compliant that year, and 99 per cent of the value claimed was compliant. However, if you dig into the last little bit and explode it up, that is how you get those kind of numbers, Mr Simpson.

Graham Simpson: So they looked at the wrong subset. If they had looked at everything, it would have been a different figure.

Robin McGill: They had access to everything, and they chose to dig deeper, which they are entirely entitled to do.

Graham Simpson: That is their job, is it not?

Robin McGill: Yes, absolutely, and we welcome the input from both external and internal audit. It is key.

Graham Simpson: I am a pretty calm guy, believe it or not, but when I was going through all of this, I found myself getting angrier and angrier just reading the various items of expenditure. For example, appendix 3 of the Grant Thornton report sets out

"Sampled expenditure with no itemised receipts".

That table contains a number of things. Here is a meal, for instance: £566 for "Dinner for four people" at La Garrigue in Edinburgh. The convener has mentioned the dinner at L'escargot Blanc—I do not think that that restaurant exists any more but it can correct me if I am wrong—and there was a meal in Gaucho Edinburgh. There were also costs relating to a Barbados study tour—what was that particular one all about?

11:00

Robin McGill: The list that you are reading from is the list that we provided the auditors with, which was examples of meals that were more than £50 per head. I have the list in front of me. We had already made that available to the auditors and sought to understand exactly what was going on.

The Barbados tour was a visiting group of dignitaries from Barbados, who were interested in replicating Scotland's water system and wanted to come to learn from us, primarily because we have a very good reputation around the world and represent Scotland, externally at least, in a very strong light as part of our hydro nation strategy. They wanted to know how we regulated—not how we did our expenses—and that was a very important visit. I am sure that there will be more. We often get calls from people who want to understand what is going on, in spite of all of this going on internally.

Graham Simpson: There have been a number of internal and external meetings for which you have hired places at various costs. The best value appears to have been when you hired a meeting room from Volunteer Scotland for £66, which included refreshments. That was pretty good, but the costs went up for other meetings. I am not criticising the venues at all—they charge what they charge. The question is why you paid it. Other venues included the InterContinental Edinburgh the George, where meeting room hire, including lunch and refreshments for—oh, it is your friends from New Zealand again—a New Zealand study tour cost £862.40. Why did you pay that sort of amount?

Donald MacRae: David Satti can answer that one.

David Satti: I can answer that. WICS has operated fully remotely without an office since Covid, which has resulted in savings of more than £600,000 for the organisation. The other side of that is that, when we have to have meetings, we have to procure or use external rooms, such as the ones that you highlight. We are in the final stages of engagement with the public body that has our sublease to go back to our old office, so that we will then host meetings such as the ones that you referenced in our office at Moray house.

Graham Simpson: So you will not need to hire such venues in the future.

David Satti: Once we have the office in Stirling again, we will be using that.

Graham Simpson: There were other venues that involved pretty hefty fees, including Kimpton Charlotte Square hotel and Taylor Swift's favourite hotel—the Waldorf Astoria in Edinburgh, where she stayed. I wondered whether you were doing a recce for Ms Swift before she came to Edinburgh.

We move on to various items of training. The senior manager of central office had two training sessions on social media in two years—well, the first was on using social media in a public sector setting, and the second, which was provided by Talk Action, was called social media training, which cost £299; the first course cost £360. What did he get for that?

David Satti: As I said earlier, we are a small office, and we do not have the skills and capabilities in our organisation to engage in the way in which not only most regulators but most organisations do. As we discussed earlier, we are using the company 3x1 Group but, in an ideal world, we would build those skills and capabilities in house, which would include training individuals on a more enduring basis for WICS, rather than our having to look elsewhere and buy those skills in.

Graham Simpson: You would expect to get a result from having spent money on sending someone to get social media training, but when I look at your social media, nothing has been posted on your Twitter, which is now known as X, since June 2022; you do not appear to have a Facebook page; and there is hardly anything on LinkedIn, which you might use as a business organisation. You appear to have got very little, if anything, for that money. Do you accept that?

David Satti: On LinkedIn, we recently published our methodology for the upcoming strategic review of charges, which is an extensive piece of work that has been well received in Scotland and in the rest of the United Kingdom, as you will have read in the trade press. We are also getting inquiries from countries such as Romania and Australia, which want to better understand what we are trying to do in the regulatory environment in Scotland, so what we are doing is clearly having some reach.

Graham Simpson: This is laughable. Nearly £600 was spent on social media training, and the best that you can do is refer me to one post on LinkedIn. My advice is that, if you send people on a training course—whatever it is for—you should ensure that there is a return on that investment and that the people do what they have been sent to do.

This is absolute rubbish. You need to go away, look at all these training courses and ask, "What have we got from the essential writing skills workshop?" You would hope that people you employ could write. You do not need to spend £600 on core financial modelling training. If we go through this, we can see that it is garbage. I will leave it there.

The Convener: Colin Beattie wants to ask a very quick question.

Colin Beattie: I have two very quick questions.

The Convener: Two!

Colin Beattie: First, we talked about analysts and so on earlier. How many of the 21 staff are analysts?

David Satti: We have lost two analysts over the year, and nine analysts remain, so we have a number of unfilled posts. They are all graduate recruitments, which, at times, require investment in the individuals.

Colin Beattie: Secondly, it cost £23,000 for the head of external relations and strategy to attend an executive development programme at Columbia University in 2019. The suggestion in the appraisal form is that they were a new member of staff. Will you confirm whether that was the case?

David Satti: I would have to come back to you on that.

Colin Beattie: If you could, that would be good. I do not want to cast any aspersions on that person's ability, but why would a public sector organisation feel that it was appropriate to spend £23,000 on a training course to develop the skill set of a new member of staff—if we assume that they were a new member of staff?

David Satti: I can come back to you to confirm the position, but I am almost certain that they were not a new member of staff, which might—

Colin Beattie: The form implies that they were. If you could come back with confirmation of that, that would be good, because I might have a question after you come back to us.

The Convener: The appraisal form says that the training was for a new member of staff.

Jamie Greene has a final question.

Jamie Greene: I would like to close the session by picking up on an issue that I asked about the previous time that we met. Clearly, the optics are difficult. I presume that you would have preferred to have come in today to talk about the positive work that WICS does and the good work that, I am sure, your staff do, for which we should thank them. However, the media coverage and the scrutiny at the highest level—from the Parliament, the Government and the Auditor General—must be uncomfortable and difficult, and rightly so. After all, we are talking about public money.

Do you accept that the optics of all this have created the very unhelpful view that, for those at the highest level of the organisation, it has been something of a gravy train for a considerable time?

Although that might have ended, it has happened, which is the problem. People have lost confidence and faith in the governance of this public body.

The second part of my question is about what happens next. Is there a case for a clear separation of the two functions—of the part that oversees a public nationalised industry such as the water industry and has a very important role to play, and the organisation's more commercial arm, which wants to go out, wine and dine, and travel business class, because that is what commercial companies do in seeking new business opportunities? The problem that we have had until now is that combining the two and trying to pretend to be both has led us to some of these issues, as well as the governance issues, which I have no doubt individuals will have to face the consequences for. What should we do next?

Donald MacRae: We—and I, personally—completely accept the need to show greater value for money. I still suggest that we need to continue to undertake hydro nation-related activity, but in a way that allows us to separate the functions, as you suggest. There is a grey area, and it is quite difficult to combine the two, as you just outlined—I accept that conclusion. That is under review, in discussion with the Scottish Government, which the Government witnesses can confirm. The issue is on our horizon, and it is very important to have greater clarity. I am sure that Audit Scotland would appreciate that, too.

Robin McGill: The discussion is not new. The board has been having this discussion—should we or should we not?—on and off for the past three years. We are pulling in £1 million, which is a good thing, but it puts a strain on the organisation, and that might have consequences. We have discussed the subject, and we have always said, "Let us just keep going and keep an eye on it," but it is time to take a fundamental look.

David Satti: The one thing that I will add is that we hosted a delegation from Malaysia this summer, which was compliant with the SPFM, and the first thing that the delegation members did as soon as they left was to declare their interest in engaging with us on a consultancy basis.

That activity has now paused. We are not looking to generate any revenue from external parties, not least because we do not have the capacity to do that at the moment because of where we are in the regulatory cycle and because of the reset that is well under way in WICS. However, when we look ahead, the question that you pose will be the right one. Should we be looking at ways, governance structures and potentially different structures to host such activity?

Michelle Quinn: Thank you for the question, Mr Greene. It is an important point. It is important to recognise that the organisation has been an effective regulator. However, the reports have highlighted issues of propriety and regularity in the organisation's operational management.

We have had to prioritise stabilising and improving the situation. I recognise the work that WICS has done to address some of the issues. It now has the challenge of embedding new processes in the wider culture across the organisation.

The hydro nation work is currently paused. Over the coming months, we will take a view on whether that work will proceed and, if so, how it will be best delivered. That will be considered in the round alongside all the other activity that is being undertaken. However, as I said, at present, our firm priority is stabilising the organisation and bringing the best-value approach to the stewardship of public funds.

11:15

The Convener: Before we finish, I have a final question for Michelle Quinn and Kersti Berge. Kersti, you mentioned the reviews. There is an independent review into WICS and, interestingly, an internal review of the Government's sponsorship arrangements. I do not know whether that should not be the other way round, to coin a phrase. Anyway, Parliament was told that certainly the independent review would be published by late summer. I know that we have had a nice week of weather, but we are coming towards the end of summer. When do we expect that report to come out?

Kersti Berge: It is important that the reviews are accurate and transparent and that we consider all the issues in the round. We have seen the initial outcomes of the internal review and have taken a number of the actions. To clarify, the internal review is done by Scottish Government internal audit; it is not done from within the DG family. That is an important point to make. We have seen some of the recommendations coming out of that review and have already acted on them.

We hope to be able to share both those reports with the committee and to publish them in due course. We are focused on seeing both of them in the round, and we will share that with you as soon as we can.

Michelle Quinn: The important thing to say is that we are not waiting until the publication of the reports to take action. We have completed the majority of actions—all but one, actually—in the internal review. The outstanding action is to complete the review of the framework agreement, which is under way. Once we have concluded those reviews, checked them for accuracy and ensured that they capture all the issues in the round—we want to do a comprehensive review of all of this—we will publish both the reports together and share them with the committee.

The Convener: Do you expect that to be before the October recess, for example?

Michelle Quinn: I think that that is unlikely at this stage, but we will publish the reports at the earliest opportunity, once we have concluded all that work.

The Convener: Do you think that it will be November?

Michelle Quinn: We will have to come back to you on a date.

The Convener: Do you think that it will be before Christmas?

Michelle Quinn: We will come back to you with a date.

The Convener: Okay. That is not an entirely satisfactory ending, but I thank you all for taking part in this morning's evidence session. I appreciate that it has been long and, at times, quite testing, so thank you for your co-operation. There are a number of areas that the committee will want to follow up, and I think that we have agreed that you will get some more information to us to help us understand both what has gone on and what is happening.

Again, I thank Catherine Williams, Kersti Berge, Michelle Quinn, David Satti, Donald MacRae and Robin McGill for their time—it is much appreciated. We will consider our next steps as a committee. I now close the public part of this morning's meeting.

11:18

Meeting continued in private until 11:31.

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