The 2025/26 audit of the

Scottish Government Consolidated Accounts



AUDITOR GENERAL

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Key messages

1. The 2025/26 Consolidated Accounts report an underspend of £591 million, less than one per cent, against budgeted expenditure of £64.2 billion. The underspend was achieved without the planned use of ScotWind monies of £364 million.

2. The delivery of a balanced financial position for 2026/27 remains challenging. Further pressures already exist for the 2027/28 budget with the income tax outturn reconciliation decreasing available funding by £720 million. Limited progress has been made with cladding remediation, and this will also contribute to the future financial challenge.

3. The Scottish Government needs to deliver recurring efficiencies to support its long-term financial sustainability and address the projected gap between demand and available resources. Additional detail is required on the implementation of the public service reform proposals within the Programme for Government 2026–2031, including the associated timelines and expected impact on both finances and service delivery.

4. The Scottish Government has not yet concluded the review of the National Performance Framework. In its absence it remains difficult to fully assess the impact of spending on outcomes. The planned new performance framework is critical in supporting reform plans and future investment to demonstrate how public spending is improving outcomes.

The 2025/26 audit of Scottish Government Consolidated Accounts

Introduction

1. I am submitting the Scottish Government Consolidated Accounts and auditor's report for 2025/26 under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

2. My report is intended to support the Scottish Parliament in its important scrutiny role of the Scottish Government. The report contains key information from the 2025/26 Consolidated Accounts and the Scottish Government's management of its budget. It also covers wider financial sustainability challenges, governance and performance reporting.

Background

3. The accounting boundary for the Consolidated Accounts reflects the areas for which the Scottish Government has direct responsibility and accountability, including the core portfolios, supporting administration, executive agencies and NHS bodies. It does not include companies where the Scottish Government holds significant shareholdings such as Ferguson Marine (Port Glasgow) Holdings Limited (FMPG), Caledonian Maritime Assets Limited (CMAL), Scottish Futures Trust, Glasgow Prestwick Airport (GPA) or the Scottish National Investment Bank (SNIB). The Scottish Government's investment in these nationalised industries and limited companies are included within the Consolidated Accounts. Other public bodies such as local authorities, and areas of expenditure such as public sector pension schemes, are also outwith the accounting boundary.

4. The Scottish Government Consolidated Accounts:

- cover over 90 per cent of the budget approved by the Scottish Parliament
- report the amounts spent against each main budget heading, and the reasons for any variances above £5 million
- show the amounts distributed to other public bodies, and local government
- report the assets, liabilities and other financial commitments of the bodies within the consolidation boundary, that are carried forward into future years
- contain a performance report, in which the Scottish Government gives an account of its performance during the year.

5. More information about the audit of the 2025/26 Scottish Government Consolidated Accounts is contained within the Annual Audit Report.

My audit opinions on the annual report and accounts are unmodified

6. My independent auditor's report is set out at pages 101–105 of the Consolidated Accounts. My opinions on the 2025/26 financial statements are unmodified. This means, in my opinion, I am content that the Scottish Government Consolidated Accounts show a true and fair view and have been properly prepared to follow accounting standards and that the income and expenditure for the year is lawful.

7. The Consolidated Accounts include a financial asset for the future repayments associated with student loans. Following the adoption of a new estimation model, there has been a reduction in the balance of £1.7 billion from £6.9 billion at 31 March 2025 to £5.2 billion at 31 March 2026. I am satisfied that the valuation is an accurate reflection of the future repayments that will be received.

8. In recent years I have reported on the regularity qualification in the annual report and accounts of Social Security Scotland. For 2025/26 the auditor has concluded that, due to the transfer of benefit cases to Social Security Scotland, the levels of error and fraud in the benefits administered by the Department for Work and Pensions is no longer **material**. The same regularity issue does not affect the benefits administered by Social Security Scotland due to the different legislative basis for these benefits.

9. The Social Security Scotland auditor has, however, included an Emphasis of Matter paragraph within the Independent Auditor's Report drawing attention to the disclosures relating to fraud and error in benefits administered by Social Security Scotland. Although Social Security Scotland has continued to develop arrangements to understand and estimate the level of fraud and error, it does not yet have comprehensive arrangements to reliably estimate the level of fraud and claimant error across the benefit caseload.

10. The Emphasis of Matter does not modify the audit opinion, however it highlights a matter that is fundamental to users' understanding of the annual report and accounts. I have asked the auditor to continue to engage with Social Security Scotland on their fraud and error estimation arrangements and social security will continue to feature in my work programme.

11. The 2025/26 annual report and accounts of Transport Scotland report that Ardrossan Harbour was purchased by Caledonian Maritime Assets Limited (CMAL), on behalf of the Scottish Government, for £16 million on 18 March 2026. This followed the issue of a **Written Authority** by the (then) Cabinet Secretary for Transport as the Chief Executive of Transport Scotland, as Accountable Officer, had concluded that the value for money standard had not been fully met.



Materiality is used by auditors to determine whether items identified during the audit could reasonably be expected to influence the decisions of users of the financial statements.



A **Written Authority** is an instruction to an Accountable Officer directing them to proceed with a course of action that they believe is inconsistent with their statutory responsibilities.

12. I note that the auditor of Transport Scotland has highlighted that the redevelopment works to improve Ardrossan Harbour are likely to have significant future cost implications. These will need to be managed alongside existing pressures.

The 2025/26 underspend was achieved without the planned use of ScotWind monies

13. The Consolidated Accounts show that total net expenditure during 2025/26 was £63.6 billion, £591 million less than budgeted expenditure of £64.2 billion. The resource budget was underspent by £350 million (0.6 per cent) with capital underspent by £241 million (eight per cent). High-level reasons for significant variances between actual and budgeted spend are included in the Portfolio Outturn Statements in the Consolidated Accounts.

14. Funding set out as part of in-year budget revisions during 2025/26 resulted in additional resource funding of £893 million, with £720 million directed to Health and Social Care.

15. The net impact of capital funding changes through budget revisions was to reduce the 2025/26 capital budget by £228 million, largely due to reductions in capital borrowing and planned ScotWind drawdowns, to reflect slippage in capital projects. The slippage and rephasing of capital projects present risks to service delivery, and financial challenges for future years.

16. In February 2025, the 2025/26 Scottish Budget set out the use of £364 million of ScotWind monies (£341 million capital and £23 million resource) to support the achievement of a balanced financial position for the year. By January 2026, the ScotWind requirement had reduced to £176 million (£153 million capital and £23 million resource) and, in the end, the pattern from recent years was repeated with no ScotWind monies required to support the 2025/26 expenditure.

17. I recently reported on the use of ScotWind monies as part of the Scottish Government's overall budget management approach in Management of the ScotWind leasing round: How the Scottish Government is using offshore wind funding.

The financial outlook for 2026/27 and beyond remains challenging and there is a need to deliver on recurring efficiencies to support long-term financial sustainability

18. The 2026/27 Scottish Budget, passed in February 2026, was set at £68,008 million, a 4.7 per cent real terms increase, and assumed the draw down of £150 million from the Scotland Reserve and £80 million ScotWind funds.

19. Pay and inflation remain key pressures for the achievement of financial balance in 2026/27. The Scottish Government must also realise the recurring £500 million efficiency and reform assumptions within the budget. Failure to achieve these will further increase pressures in future years.

20. The detail of some of these additional pressures are already known for 2027/28. The 2024/25 income tax outturn reconciliation is a normal part of the operation of the Fiscal Framework and ensures that the Scottish Government's funding is based on actual income tax revenues, rather than forecasts. In recent years this has provided additional funding for Scotland, however the 2024/25 reconciliation will result in a £720 million decrease in the funding available to support the 2027/28 Scottish Budget.

21. In my report last year on Financial sustainability and taxes, I highlighted the role of devolved taxes in the Scottish Budget and that lower earnings and employment growth in Scotland compared to the rest of the UK reduced their overall impact. Increasing economic growth needs to be a core part of the Scottish Government's plans to improve long-term sustainability.

Progress with cladding remediation has been slow and presents a significant future financial challenge

22. In response to the tragic events of the Grenfell Tower fire disaster in 2017, the Scottish Government put in place a cladding remediation programme to identify and remove dangerous cladding from high-rise buildings. In June 2025, the Scottish Government estimated that the cost to the public sector of assessing and remediating buildings in Scotland, over a 15-year programme, would be between £1.7 billion and £3.1 billion.

23. In 2020, the Scottish Government received £97.1 million in Barnett consequentials from the UK Government to support cladding remediation, although this was not ring-fenced. Since then, £17.5 million has been spent by the Scottish Government progressing the cladding remediation programme, significantly less than allocations made in the Scottish Budget of £123.2 million. During 2025/26 a further £31.5 million was transferred to local authorities to conduct Single Building Assessments and complete any associated mitigations.

24. The Scottish Building Safety Levy (SBSL) is a devolved tax on new residential construction that was passed into law by the Scottish Parliament in May 2026. It will now come into effect from April 2028, following a one-year delay, in response to industry feedback. The Scottish Government expect it to raise between £360 million and £450 million, over 15 years, to help fund the cladding remediation programme.

25. Over £260 million is forecast to be required for cladding remediation over the next three years, but uncertainties remain on the profile of the spend. The Scottish Government need to accelerate the pace of

delivering the cladding remediation programme and manage the financial implications alongside its other commitments.

Fiscal transparency with Parliament is critical given the financial challenges being faced

26. As I have previously reported, the 2025 Medium-Term Financial Strategy (MTFS) presented a stark picture. The Scottish Government planned to report progress against its Fiscal Sustainability Delivery Plan (FSDP) annually, as part of the annual update of the MTFS. However, due to the 2026 Scottish Parliamentary Election, there has not been an update to the 2025 MTFS and therefore no public reporting of progress against the FSDP.

27. In October 2024, the Scottish Government collated 2022/23 financial information for the Scottish public sector and provided this to Parliament for consideration. The information focused on the assets and liabilities and provided a more complete picture of the financial position associated with the powers and responsibilities devolved to the Scottish Parliament and in the wider public sector in Scotland. No updated information has since been published with the Scottish Government noting its longer-term aspiration to establish a process for relevant annual data to be consolidated and published on the Scottish Government website.

28. The MTFS is one of the key documents that allows the Parliament to question and challenge ministers' tax and spending plans, and it is vital that a clear programme of financial reporting is established and delivered. This should include developing the reporting of the financial position for the wider public sector in Scotland.

The planned efficiencies and reforms must now be delivered to address the projected gap between demand and available resources

29. The 2026/27 Scottish Budget was accompanied by the Scottish Spending Review (SSR). This sets out the Scottish Government's multi-year spending plans from 2026/27 to 2028/29 (2029/30 for capital) and notes the uncertain fiscal context that was presented in the 2025 MTFS.

30. The Portfolio Efficiency and Reform Plans set out within the SSR include savings from efficiencies, productivity improvements, workforce reductions, and reform activity. In total the plans identify £1.5 billion in cumulative, recurring savings, with workforce savings accounting for around 15 per cent. However, there is a lack of specific milestones and timelines, making it difficult to assess the deliverability.

31. I recently published the scope for an audit that will assess the Scottish Government's planning and delivery of efficiencies and productivity as part of its approach to fiscal sustainability and plan to report on this in spring 2027.

32. The capital budget has faced significant challenges in recent years, creating a backlog of infrastructure projects. Over the SSR period, capital expenditure is expected to fall from £7.32 billion in 2026/27 to £7.25 billion in 2029/30. The new approach to setting out the Infrastructure Strategy and Infrastructure Delivery Pipeline represents an improvement, however there remains a lack of transparent reporting of funding commitments across programmes and projects.

33. The Programme for Government 2026–2031 includes proposals to rationalise the public bodies landscape through a series of mergers and integrations, as well as the creation of a small number of new public bodies. It is critical that these changes are supported by clear business cases, and stakeholder consultation, to demonstrate the benefits that will be delivered.

34. There needs to be more transparency on the public service reform plans including timelines and the expected impact on finances and service delivery. Further, lessons must be learned from previous large-scale reorganisation and reform, including the creation of Police Scotland and the Scottish Fire and Rescue Service.

Governance arrangements are well established, but work is required to address the issues that resulted in a limited annual assurance opinion from the Scottish Government's internal audit service

35. A Governance Statement prepared by the Permanent Secretary is a key feature of the 2025/26 Scottish Government Consolidated Accounts (pages 56–78). It forms part of the wider accountability report and summarises how the Scottish Government is controlled and directed. The statement highlights the main risks being managed and the significant issues identified from the annual assurance process.

36. The statement notes that internal audit has provided a limited assurance opinion for 2025/26 due to weaknesses in the current risk, governance and control procedures that could affect the delivery of related objectives. This includes the inconsistent application of guidance and non-compliance with mandatory requirements compounded by capacity issues resulting in issues not being escalated in a timely way. Immediate action is required to address the weaknesses identified and promote a culture of compliance across the Scottish Government.

37. Last year I highlighted that the portfolio structure within the Scottish Government presented some challenges when tackling issues that impact across government. I am pleased that there has been a focus on this during the year to provide greater leadership and direction on issues of a cross-cutting nature.

The Oracle post-implementation review identified lessons for future public sector projects and work to maximise the benefits of the new system are ongoing

38. The Oracle Cloud platform was implemented as the new integrated HR and finance system for the Scottish Government and a further 32 other public sector bodies in October 2024 at a total cost of £59.5 million. The post-programme review recognised that optimism bias had significantly influenced the implementation cost estimates and identified lessons learned from the implementation process which should be applied to future public sector projects or programmes.

39. The Scottish Government recognise that improved budget monitoring and reporting will be vital to support financial planning, including better management of in-year budget pressures and tracking the delivery of savings. I note that work is ongoing to fully realise these wider benefits and demonstrate the value for money of the investment in the new system.

Sponsorship arrangements continue to be strengthened

40. Last year I reported that there were opportunities to further strengthen sponsorship arrangements and the Scottish Government has continued to focus on this important area.

41. During the year the Public Bodies Sponsorship Unit reassessed progress against the recommendations within Eleanor Ryan's review of public bodies and identified further action that should be taken, particularly on the improvement of framework documents. It has been established that 24 of the 89 public bodies reviewed required action on their framework documents. While I recognise that the process to review framework documents can take some time, it is critical that these accurately reflect the expectations for public bodies.

The Performance Report has significantly improved but the introduction of a new Scottish performance framework is needed to support reporting against outcomes

42. The 2025/26 Scottish Government Consolidated Accounts include a Performance Report (pages 4-53) in line with the requirements of the Government Financial Reporting Manual. I am pleased that the Scottish Government engaged constructively with the audit team and that the Performance Report provided for audit was a significant improvement from the prior year.

43. The Performance Report presents a coherent account of the main areas of focus and activity of the Scottish Government over the last year, using

data where available, identifying the challenges faced in improving areas of poor performance and the planned future action to address these.

44. There remain fundamental limitations on the Scottish Government's ability to demonstrate the extent to which its use of resources is improving outcomes due to the lack of a clear framework to measure and report performance in priority areas.

The new performance framework is critical for demonstrating how the use of resources is improving outcomes

45. The National Performance Framework (NPF) was intended to be the foundation for how policy was developed and delivered in Scotland. It included 11 National Outcomes and aimed to combine economic performance with a range of wellbeing measures to show a broad picture of Scotland's performance.

46. Last year I reported that the Scottish Government was taking further time to rethink and reform the NPF meaning that there continues to be no overarching framework to measure and report outcome data.

47. Work on a new performance framework for Scotland has continued and, in spring 2026, the Scottish Government invited feedback from parliament, public bodies and other stakeholders on proposals for reforming the performance framework. A separate process of engagement on the national indicators commenced in May 2026.

48. I note that the Scottish Government expects to publish the reformed national outcomes and national indicators towards the end of 2026. These will be critical in supporting decision-making on future reforms and areas for investment to demonstrate how resources are improving outcomes.

The Strategic Commercial Assets Division is improving the transparency of economic intervention activity as financial interventions continue to require investment

49. The Strategic Commercial Assets Division (SCAD) has five units covering initial assessment for investment through to potential exit strategy. SCAD's role is to consolidate expertise and knowledge and increase capacity to respond to cases seeking intervention from the Scottish Government and provide support across the whole lifecycle.

50. The Director-General Economy engaged with the previous Public Audit Committee about the operation of SCAD, existing financial interventions and the findings from the Transparency Review.

51. A Transparency Assurance Panel was established in September 2025 with the aim of improving transparency across the strategic commercial asset portfolio. Further, the SCAD section of the Scottish Government website is now live and provides information on the operation of the division.

52. Exhibit 1 outlines the financial support that has been made to private companies now being managed by SCAD. This is in addition to support provided through other public sector bodies including the enterprise agencies.

Exhibit 1.
Financial interventions to private companies

Financial intervention	Total financial investment	Current value in Consolidated Accounts
Glasgow Prestwick Airport Purchased by the Scottish Government in November 2013 with the stated aim of protecting jobs and safeguarding the asset. Change in financial investment value is attributable to accumulated debt interest. Total investment consists of capital (£43.4 million) and interest (£18.6 million).	£62.0 million (£58.9 million last year)	£21.3 million (no change)
Lochaber Aluminium Smelter – Gupta Family Group (GFG Alliance) In December 2016, the Scottish Government issued a 25-year financial guarantee to SIMEC Lochaber Hydropower Limited. The Scottish Government receives an annual fee in return for the guarantee. The annual exposure to the Scottish Government is between £14 million and £32 million, over the lifetime of the contract. The Cabinet Secretary for Economy, Tourism and Transport wrote to the Finance and Public Administration Committee in August 2026 regarding legal action being taken by the Scottish Government in relation to breaches of the Lochaber Guarantee and Reimbursement Agreement by GFG Alliance.	Nil (no change)	Provision of £109 million (£130 million last year) The valuation of the provision reduced this year due to an increase in the value of the land holdings included as part of the Scottish Government's security package.

Cont.

Financial intervention	Total financial investment	Current value in Consolidated Accounts
Ferguson Marine (Port Glasgow) Holdings Limited Established by the Scottish Government in December 2019 after Ferguson Marine Engineering Limited (FMEL) went into administration. The existing voted loans (£97.7 million) were terminated and the difference between the valuation of the ferry vessels (£74.8 million) and the valuation of the outstanding loans (£22.9 million) was written off in 2020/21.	£416.5 million (£361.9 million last year)	£102.3 million[1] (£99 million[2] last year)

Notes:
1–2. These figures include £54.7 million for MV Glen Sannox which was transferred to CMAL in November 2024.

Source: Audit Scotland

53. There has been continual slippage and cost overruns throughout the build process for MV Glen Sannox and MV Glen Rosa. MV Glen Sannox was delivered in November 2024, three years after the original completion date, and MV Glen Rosa is now projected to be delivered over four years late, in February 2027. The combined cost of the vessels has also increased from an original upper estimate of £114 million to the latest projection of £346.5 million (a £232.5 million/203 per cent overspend).

54. I have asked the audit team to continue to monitor and report on the financial interventions, including the risks they present for the public purse. Further, in May 2025, I published the scope for a future report on the delivery of the vessels that will be published following the completion of MV Glen Rosa. This will look to draw out lessons that should be applied to other complex projects or commercial operations.

55. Further I will deliver on my undertaking to the Public Audit Committee in Session 6 to consider the findings of the forensic examination of the accounting records of FMEL, covering the period before nationalisation, which was commissioned by the Scottish Government.

Conclusions

56. The Consolidated Accounts remain a critical component of the Scottish Government's accountability to the Scottish Parliament and the public. Looking ahead, the cost of public services is projected to rise much quicker than funding.

57. Public service reform, and economic growth, is critical to securing the long-term fiscal sustainability of the Scottish public sector, and this needs to be delivered at scale and pace given the extent of the financial challenges being faced. There needs to be more transparency on the public service reform proposals within the Programme for Government, including timelines and the expected impact on finances and service delivery.

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AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500
www.audit.scot