



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Wednesday 21 May 2025

Session 6



The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 21 May 2025

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PUBLIC AUDIT COMMITTEE

16th Meeting 2025, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (LD)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Stuart McMillan (Greenock and Inverclyde) (SNP)

*Graham Simpson (Central Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Cook (Scottish Government)

Gregor Irwin (Scottish Government)

Dermot Rhatigan (Scottish Government)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 21 May 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the 16th meeting in 2025 of the Public Audit Committee. Agenda item 1 is for the committee to decide whether to take agenda items 3, 4 and 5 in private. Do we agree to do so?

Members *indicated agreement.*

Scottish Government Strategic Commercial Assets Division

09:30

The Convener: Agenda item 2 is consideration of the Scottish Government's approach to financial interventions, in particular the strategic commercial assets division and its work. I am very pleased to welcome Gregor Irwin, who is the director general of economy at the Scottish Government, Colin Cook, who is the Scottish Government's director of economic development, and Dermot Rhatigan, who is a deputy director and the lead on the strategic commercial assets division. We have some questions to put to you this morning but, before we get to them, I invite you, director general, to make an opening statement.

Gregor Irwin (Scottish Government): We welcome the opportunity to discuss the work of the strategic commercial assets division and, in particular, the transparency review. Topics that have been raised in the committee have shaped the content and the approach of that review. In the first phase, we prioritised for release reports relating to the written authority for the completion of vessel 802—the Glen Rosa—at Ferguson Marine (Port Glasgow) Ltd, which has been a priority for the committee, and also the Government's intervention with Burntisland Fabrications Ltd.

Striking the right balance between transparency and protecting commercially sensitive material and legal rights is not always straightforward. It requires careful judgment and consultation with stakeholders. We appreciate that the committee remains concerned about the redactions in some of the material that we released in February. We are committed to periodic review of our approach and are very open to challenge on our processes.

As the committee has noted in correspondence to us, one of the reports that we shared on 7 February from First Marine International was substantially redacted. We devoted considerable attention to reviewing that particular report with FMI and Ferguson Marine. The Government's contract with FMI and its associated disclaimer accords the authors significant legal rights that could not simply be put aside. Moreover, the management team at Ferguson Marine regards that report as particularly sensitive while it remains the foundation for the yard's transformation and investment plan.

That contrasts with the BiFab evaluation, which was released in full. In that case, no commercial interests remain live, and the focus of that report is on actions that the Government has taken and the

results that were achieved by those actions. Ernst & Young's independent analysis quantifies both the narrow commercial and the broader economic outcomes of that intervention. It does so by using a range of benefit to cost ratios and identifying good practice, areas for improvement and lessons learned. We accept EY's findings and have addressed the substance of the report's five main recommendations, although not always exactly in the manner that EY proposed—we would be happy to explain that to the committee.

The report of findings and recommendations of the strategic commercial assets transparency review, which we sent to the committee on 4 April, made eight recommendations to Scottish ministers, which have been accepted. In combination, the implementation of those recommendations, which is now under way, will improve transparency and promote accountability.

Among other things, we will establish a transparency assurance panel to review commercial advice for publication on a six-monthly cycle; amend the terms and conditions of our procurement of commercial advice to promote access to information; and publish a summary of all shareholder approval requests from the businesses that the strategic commercial assets division sponsors. I hope that you will recognise that the review as a whole is a positive initiative and I look forward to taking your questions on it.

The Convener: We indeed have questions on the areas that you have outlined in your introductory remarks, director general, and we will get to those in due course. Before we get to some of those broader points, I invite Stuart McMillan to put a couple of general questions to you, after which I think that he wants to talk with you in some detail about the FMPG situation.

Stuart McMillan (Greenock and Inverclyde) (SNP): Thank you very much, convener, and thank you for your comments, Mr Irwin.

Workstream 2 of the transparency review is on freedom of information. Of the FOI requests, 95 per cent have been replied to within the statutory deadline. How many FOIs have come in?

Gregor Irwin: I will ask Dermot to provide that information. We receive a lot of FOIs.

Dermot Rhatigan (Scottish Government): I do not have the number for the past year, but I could find it out for you very quickly and get back to you today on that. How far back do you want to go—a year? Two years?

Stuart McMillan: SCAD came into being in 2022-23. It would be helpful if you could go back to that point for the annual numbers.

Gregor Irwin: Okay.

Stuart McMillan: Also, have you taken on any additional staff to deal with the FOI requests?

Dermot Rhatigan: I will pick that up. There was a time when SCAD's performance in responding to FOIs was not what we wanted it to be. Across the Government, the permanent secretary was in touch with the Scottish Information Commissioner. In our area, we have not taken on new staff, but we have organised ourselves differently to have a greater focus on meeting deadlines.

We think that we have made a lot of progress in the past year. Not only does each case get allocated to a case officer, but our project management office oversees deadlines and keeps everything on track. The staff in Colin Cook's directorate office go through all the cases under Colin's direction and we meet weekly. There is a lot more tracking of the cases, and we have seen the benefit of that, as we reached 100 per cent compliance recently.

Gregor Irwin: There has been an intense focus on responding to FOI requests in a timely manner right across DG economy. Over the past 15 months, we have been pretty close to a 100 per cent success rate in doing so—I do not think that it is exactly 100 per cent, but it is close to it.

Stuart McMillan: That is helpful, and it would be good if you could provide that information, Mr Rhatigan.

On Ferguson Marine Port Glasgow, Mr Irwin, you touched on the reports that First Marine International sent to the committee. There were six different reports and the covering letter accompanying them states that the first study, which took place in 2020-21, was, in effect, about the benchmarking, and the second study, which took place in 2022-23, was the potential improvements study.

Between those two reports and the level of scrutiny that the division, with that information, has placed on the yard—obviously, you have the unredacted versions as compared to us—and bearing in mind how politically sensitive the situation with FMPG is and how many jobs are involved with the yard, what genuine activity has your division undertaken and what input does it have with regard to the yard?

Gregor Irwin: Are you referring specifically to the period between when those two reports were produced, or speaking more generally?

Stuart McMillan: More generally.

Gregor Irwin: So you are asking about our regular rhythm of engagement with the yard—is that what you mean?

Stuart McMillan: The first study is clearly about the benchmarking. SCAD came in in 2022-23 and

that was the benchmark point. What engagement do you have with the yard?

Gregor Irwin: I will ask Dermot Rhatigan to describe that because he is closer to that work.

Dermot Rhatigan: The reports are important. The first one was initiated by the management of the business to benchmark their own position against that of their competitors. You have to use an outside contractor to do that because they go in and out of other international shipyards and would have information that Ferguson Marine does not have.

The second report was essentially about what the improvements should be, including specification of the type of equipment that the yard should buy and where Ferguson should aim to be in order to be benchmarked against the best in different international cohorts. The report specifies types of equipment and also goes through things such as how the layout of the yard should be arranged to create a more optimal process flow.

That second report has been used as the basis of the capital investment plan that the yard produced. The FMI report mentioned about £14 million-worth of capital. When ministers announced the level of money that we would be able to put into a capital investment programme, that was benchmarked from that report.

Since then, the yard has done survey work to work out how items with a longer lead time would come into the yard. If you look at the Public Contracts Scotland portal, you will see that, on 5 March, the yard advertised for a semi-automated panel line. In order to do that, Ferguson needed to work out whether the electrical system in the yard was capable of installing an automated panel line, where it would go and how it would affect other process flows in the yard.

The report is very much a live document and the yard uses it all the time. It is the basis for procurement now and for how the yard will be organised in future. That is how Ferguson is using the document. We discuss that report with the yard and capital expenditure plans are brought forward for us to look at. The report is being used all the time and you will start to see the impact as new items of kit are delivered to the yard and installed.

Stuart McMillan: Am I right in assuming that you do not have any dealings with day-to-day operations and activities?

Gregor Irwin: That is correct.

Stuart McMillan: Do all contracts from Ferguson Marine Port Glasgow go on to Public Contracts Scotland, if they are above the relevant threshold?

Dermot Rhatigan: The companies were deliberately structured to have a holding company on top. There is Ferguson Marine (801-802) Ltd, which controls the contracts for the Glen Rosa and the Glen Sannox, and there is also a commercial entity. Anything that is commercial work is not covered by public law so there is no requirement for public procurement of items purchased for commercial work, but the other entities would use Public Contracts Scotland.

One of the subsidiaries, Ferguson Marine (Port Glasgow) Ltd, holds all the assets and staff of the business, and when it buys kit or infrastructure for the yard, it procures that through Public Contracts Scotland.

Stuart McMillan: That is quite helpful information.

How does SCAD assess the effectiveness of previous decisions to intervene, or not, in a particular business or to make follow-on investments such as the recent investment of £14.2 million in Ferguson's?

Gregor Irwin: One of the strengths of the approach that we have adopted in recent years is that we have gathered together the best possible expertise from across Government, both within the staffing of the division and through the relationships that division staff have with other parts of Government. We have made a deliberate choice to ensure that we have the best available expertise for focusing on the work of overseeing strategic commercial assets. That has been done over a period of time and is still a work in progress.

09:45

Alongside that, we have established frameworks and methods of operating that have allowed us to assess the investment decisions of an individual business, such as Ferguson Marine, and potential interventions in a much more rigorous manner that is fully consistent with Treasury green book principles and the Scottish public finance manual. We also draw in external commercial expertise where appropriate to complement the internal expertise.

The business investment framework is now part of the SPFM. We are working on an insurance playbook, which essentially provides a ready-made plan that can be adapted to specific circumstances that we might face when dealing with individual interventions.

On the question of how successful we have been in each and every one of the decisions that we have taken, some decisions around specific investments will be more significant than others and will require much higher assurance. In the

case of the proposed capital investment in Ferguson Marine, we have been very clear that that needs to be subject to good due diligence. It must comply with subsidy control rules and legislation, and that means that it must be consistent with meeting the commercial market operator test. That is an example of where it is absolutely critical to work with advisers and the yard to ensure that the commercial strategy and the business plan are as strong as they can possibly be. It is also important that, at the appropriate stage, we ensure that there is appropriate external due diligence of the proposition, so that we can ensure its compliance with legislation. We are doing everything that we can to do that in a timely manner, but we have to operate within the legal frameworks.

Stuart McMillan: With regard to that expertise, would you get somebody who has an understanding of and experience in the shipbuilding industry to give you that advice?

Gregor Irwin: We draw on Caledonian Maritime Assets Ltd—CMAL—as our technical advisers on shipbuilding, and we have used external advisers, including FMI, to provide specific shipbuilding expertise. Colin Cook might wish to add to that.

Colin Cook (Scottish Government): As the committee is aware, we spent some time developing a framework agreement that manages the relationship between the Scottish Government and FMPG. That agreement sets out the respective responsibilities of the chair, the board, Scottish ministers, Gregor Irwin in his role at SCAD, and myself—that is all laid out and understood.

Over the past few years, we have, as Gregor has said, taken external shipbuilding advice where that was appropriate. The FMI report is an example of that. We have also supported the chair of Ferguson Marine to strengthen the amount of shipbuilding expertise on his board. The most recent non-executive director recruitment round enhanced that expertise when it put a very experienced shipbuilding man on the board. The chair has also recently recruited a new chief executive who has a background in shipbuilding project and programme management. All of those moves strengthen the understanding of the industry that the board operates in.

Stuart McMillan: Building a commercial ship is different from building a naval ship—that comment is continually heard. I have not yet had the opportunity to meet the new chief executive, but I know that that is being worked on.

I am asking these questions because the FMI reports are very clear about some of the challenges. One of the reports says that new cost forecasting processes appear to be adequate and

an improvement on previous systems, but that that is clearly reliant on there being accurate drawings, design and engineering information.

There will be some questions about the Glen Rosa and the announcement that has been made in the past couple of weeks. However, as the report highlights, there are still challenges. That is not helpful, to say the least. It is not helpful in terms of the yard's future. Notwithstanding the strengthening of the board, that raises questions about the strength of the board beforehand. I am not casting aspersions on any individual, but, with regard to the board as an entity, it shows a complete lack of leadership at board level to scrutinise what is actually taking place on the shop floor and what is happening with regard to the management of the yard. I genuinely have concerns about that, because the fact is that it has just lost two orders.

Colin Cook: I do not think that anybody who is involved in Ferguson Marine, let alone the current board or management team, would dispute the challenges that they have faced over the past few years. Those are self-evident to everybody. However, the current board engages with the trade unions, for example. At every board meeting, the trade union is invited—

Stuart McMillan: I am sorry, but—

Colin Cook: No, no. I am going to—

Stuart McMillan: I am sorry for interrupting, but they are allowed in for only 15 minutes at a time.

Colin Cook: I know, yes, absolutely—

Stuart McMillan: That is unacceptable.

Colin Cook: At the recent meeting, which Dermot Rhatigan attended, the union and you and others raised these questions about the employee voice, and we have taken those questions up with the board and the chair. I think that everybody acknowledges that there is more to do to strengthen that engagement and that that will be critical as we look to invest in the future of the yard and to develop and implement the new business strategy that the yard has put together. The strategy acknowledges some of those weaknesses, including in the functions around design, and it has an approach to deal with those.

Stuart McMillan: In all fairness to the shop stewards, they have been asking to have an input for some time. It should not take a meeting that I organised with the Deputy First Minister and two shop stewards to get that point raised yet again, when the shop stewards have been raising those points directly to the chair of the board and the organisation. Fundamentally, the shop stewards want the yard to survive and to thrive. If there is going to be better engagement, I welcome that, and I am sure that that would also be welcomed

on the shop floor. However, it should not take that type of action for that to happen.

The committee recently received correspondence from the permanent secretary to the Scottish Government, which said:

“The Directors of FMPG have raised concerns about their ability to operate in a fully commercial manner, taking account of their responsibilities and liabilities as Directors under the Companies Act, alongside constraints on their commercial decisions by virtue of compliance with Scottish Government guidance such as the Scottish Public Finance Manual”.

When I read that, my first thought— notwithstanding the legal aspect that directors clearly have to operate under, which I would not argue with at all—was that that looks as though the directors are passing the buck, because they have not undertaken their duties in the way that they should have. Do you agree?

Gregor Irwin: It is undoubtedly the case that a commercial business under public ownership operates in a different environment and faces constraints that a privately owned business would not face. We are acutely aware of the importance of ensuring that, as set out in the framework agreement, Ferguson Marine operates in an appropriate manner, given that the Government is the shareholder of Ferguson Marine. As we do that and as we work with the yard, we acknowledge that the directors and the workers at the yard share a strong and passionate interest in securing a sustainable future for the yard, and we need to work with them constructively to allow them to fulfil their obligations as part of the public sector while being able to operate in a way that allows them to win business and secure a sustainable future for the yard.

That is an example of a challenge that we face on a continuing basis. However, the framework agreement is the vehicle for addressing many of those challenges. We revised it recently, in October last year. It is essential that the framework agreement provides clarity on who is responsible for what and what the expectations are and that that is based on a proper conversation about the trade-offs and tensions that might be involved in the way that I have just described.

Stuart McMillan: I do not dispute that in any way, shape or form, because I genuinely recognise that it is a different operating model.

We have heard today that you do not deal with the day-to-day operations—that is obviously for others—but the fact is that the yard has clearly not been competitive. If there was more scrutiny of the day-to-day operations—whether that is scrutiny of the accounting officer or of the new chief executive, who must obviously be given time to prove his worth—that would surely help to make

the yard competitive. The yard cannot compete with China. Very few can compete with countries where the labour costs are a lot less; I think that we would all acknowledge that. There are things that the yard can do, and has done in the past, so that it can compete, but the cost situation is clearly hampering that. Therefore, I implore you and your staff to have more input and to carry out more of a scrutiny function and more due diligence of the yard’s day-to-day operations.

Gregor Irwin: I whole-heartedly agree with you about the scrutiny function; that is an essential part of what we do. It is essential that all three parties to this—the Government, the board and the workers at Ferguson Marine—work together closely, collaboratively and constructively, seeking to achieve the same objectives: to secure a sustainable future for the yard while delivering the vessel at a minimum cost in a timely manner. There are clearly very severe challenges in that regard. As we do that, we must also be mindful of the expertise that we bring to the challenge and strike the right balance in terms of providing space for decisions to be made by the appropriate party.

However, close scrutiny by the Government of decisions that are made by the board and the management team is absolutely essential. Following the most recent increase in the cost forecast and the delay to the delivery of the vessel, the very clear instruction from the Deputy First Minister is that we absolutely need to double down on that scrutiny. She has asked for a weekly review group to be set up, to work alongside the existing project management processes. That group will be the vehicle for providing that scrutiny, and we fully intend to make that process work well.

Stuart McMillan: Notwithstanding the fact that two new people have joined the board, do you have confidence in the chair of the board and in the board?

Gregor Irwin: I have absolute confidence that the board is doing everything that it possibly can within the powers that are available to it to work with the team at the yard—the workforce and the unions—and with the Government to secure the best possible outcome for Ferguson Marine.

Equally, I am very conscious that it takes a special person at this moment to step up and to be willing to play a leadership role at Ferguson Marine. That is true of Graeme Thomson, who has stepped up to be the chief executive, and it is also true of people who are willing to come on to the board at the moment. The easy thing for people to do would be to step away because of the challenges that the yard faces, so we need to recognise that, too.

10:00

Stuart McMillan: This is my final question, convener. The version of the First Marine International report that we have is heavily redacted, although there is some very useful and helpful information in what we can read of it. To what extent did Scottish Government officials challenge the levels of redaction in the reports? Did FMI provide you with a rationale for the aspects that it deemed to be too commercially sensitive to release?

Gregor Irwin: I will ask Dermot Rhatigan to describe that process and answer your question, which I might want to add to.

Dermot Rhatigan: As part of the overall process for the transparency review, we set up a team in SCAD, but the initial team was not set up with people who were involved with commissioning the reports, so they were already a step away from the reports. We did our own review of all the reports, and then we made contact with their authors.

As Gregor Irwin mentioned in his opening statement, we sign up to terms and conditions with the authors of reports, including how those reports can be used and shared. We took legal advice about whether we could ignore the conditions that we had set or step away from them, and what the risk of doing that would be. We received very clear advice that the Government should stick to the terms of its legal agreement.

That prompted us to get in touch with FMI. We spoke not only to someone in head office but to the author of the report. We talked about what was in the report, what would be sensitive for the business and what would be sensitive for FMI, given that FMI make its money from selling such reports. It emphasised to us that it has a lot of its own intellectual property in its reports, which reveal how it goes about benchmarking shipyards, its processes and so on. FMI was worried about its commercial interests, so we spoke to its representatives, and we also spoke to Ferguson Marine.

FMI did two reports: one was for the shipyard and the second one was for us. Ferguson Marine sees the report as a live and very sensitive document, so it is not the sort of thing that it would want to be shared with its competitors or clients who are considering placing work with the yard.

We worked through the report. We would have had at least three or four phone calls with the author of the report, discussing the material that FMI thought should be redacted. We said that one option would be to release nothing from the report and another would be to release material that would show the structure of the report and what it looked at. The best way to put it is that we

negotiated on what could be released, but, under the terms of our contract, we had to have FMI's permission to release what has been released. It co-operated with us, and it did not charge us any extra money for the discussions that we had with it. However, it did not want to go beyond that point, and because its report was so heavily redacted, it wrote the letter dated 6 February, which we included in the pack, because we thought that it was FMI describing its attitude to the report, and why it was sensitive, in its own words.

FMI, which works internationally, made the point that it was not aware of any other report like that having ever made its way into the public domain.

Gregor Irwin: If that report is subject to an FOI request, we will address that in a manner consistent with our existing processes under the legislation. We want to get ahead of FOI requests and release reports pre-emptively. This experience has shown that there are limits to what we can do in that regard. In line with one of the recommendations in the review, we are serious about amending our terms and conditions, so that we can be as transparent as possible and release as much information as possible in unredacted form.

There is also something that we can do in how we structure commissions for reports to ensure that some elements of those reports can be issued in an unredacted form in a way that provides meaningful information about the contents of the report.

Lastly, as is always the case when it comes to strategic commercial assets, there are tensions here. We must be able to contract with organisations such as FMI in future. We do not want FMI to say, "The Scottish Government is going to give away our intellectual property and we don't want to contract with it," because that will damage our ability to support a sustainable future for Ferguson Marine and, potentially, for other strategic commercial asset interventions. We need to be mindful of that.

The Convener: The default position of the contract with FMI was secrecy, was it not? There are two paragraphs about that in the letter that you wrote to me on 4 April. The first talks about how

"all information will be treated as commercial in confidence by the parties."

That was the condition of your contractual arrangement with FMI. The second states:

"In addition, FMI applied a disclaimer to the report which requires their consent for the report, or information contained within the report, to be shared beyond the parties to the contract."

Gregor Irwin: We are very clear that we want to change our approach to contracting similar reports

in future to support transparency and to ensure that we are able to release information in a way that does not jeopardise commercially confidential information. That is one of the lessons from the review and it is reflected in the recommendations as well. We are very keen to address the issue and we think that it is important.

The Convener: You mentioned FMI's track record and its intellectual property rights. When it was commissioned to do that work, was it required to disclose who else it worked for?

Gregor Irwin: Do you mean the other clients?

The Convener: I mean the other shipyards that are potentially in competition with Ferguson Marine for some of those contracts, for example. Is there a disclosure clause that means that you understand who else is a part of its client base, to ensure that there is no conflict of interest, for example?

Gregor Irwin: I will pass that to Dermot Rhatigan and Colin Cook. They might be able to answer that question, otherwise we might need to follow up on it with you. Of course, devices are used in contracts to protect commercial information—that is precisely the issue that you have raised—and it works both ways.

The Convener: It does not work both ways, though, does it? We are sat here with hardly any information at all, all at the say-so of that overseas-owned multinational consultancy company.

Gregor Irwin: As we contract with third parties, we can ask them to protect our commercial information. In this case, I am fairly confident that we will have done, but I am not aware of the specifics, so we will need to follow up with you on that. That is the primary mechanism by which we ensure that matters that are commercially sensitive are not misused by people with whom we contract. That is standard practice in business.

The Convener: Do those consultants have any exposure to risk themselves or do they just get a reward from those exercises? If things have not gone well—clearly, they have not gone that well at FMPG—does FMI assume any responsibility?

Gregor Irwin: I think that you are asking a legal question—

The Convener: No, I am not asking a legal question. I am asking whether FMI is subject to any risk if it is hired to carry out due diligence, for example, and things do not pan out according to its advice. Is there any clawback? What responsibility rests with it?

Gregor Irwin: That would be pursued through a legal process. I am afraid that I am not able to

answer that question; I do not know whether either of my colleagues wants to add anything.

Dermot Rhatigan: The first FMI report was about its benchmarking the yard against competitors. You asked whether it would have knowledge of competitor yards—that would certainly be the case, as it would have been working with yards that would potentially compete with Ferguson.

Its second report laid out recommendations for the types of equipment that the yard should buy, how it should lay out the shop floor, move materials around the yard and so on. FMI would not be responsible for the implementation of that report—it would not take responsibility if the yard did not implement it in the way that it suggested. If there were no improvements on the back of the report, FMI would not be responsible for that—that would be a responsibility of the management.

The Convener: Okay. I should declare an interest. On my voluntary register of trade union interests is my membership of the GMB trade union.

It might have been better asking the shop stewards about the layout of the yard rather than spending large amounts of public money to ask FMI to provide that for you. Do you not see that there might be a conflict of interest if FMI's clients include people who are competing against FMPG for the public procurement contracts?

Gregor Irwin: There are contractual mechanisms for addressing those conflicts of interest.

The Convener: Okay. I will come back to some of those areas later on.

The deputy convener has got a short question before Graham Simpson comes in with more questions.

Jamie Greene (West Scotland) (LD): Good morning. I have a supplementary question on the first line of questioning. Mr Irwin, in response to one of the earlier questions, you stated—and correct me if I am wrong—that you have full confidence in the board of FMPG, including its current chair. Will you qualify that and explain how you have come to that conclusion, given the yard's inability to compete in the open market for new business and its cost overruns, which, I am sure, other members will want to address? Do you believe that the current board at the yard is creating a sustainable future for it? If so, will you qualify that and explain how you have come to that conclusion?

Gregor Irwin: I said that I am confident that the board is doing everything that it can in order to pursue the objective of securing a sustainable future for the yard. I have absolutely no doubt that

it is focused on that question, alongside the management of other priorities, such as completing MV Glen Rosa at the lowest possible cost and putting it into service at the earliest opportunity. It is very clear that the yard faces challenges. The cost and delivery record of both vessels is not a strong performance record—and that is an understatement. We need to recognise that.

Equally, as Mr McMillan alluded to, the yard has a long history and a strong record of building certain ships. The view of the board and of the management team, which, as I understand it, is informed by good expert advice, is that they need to focus on where the track record of the yard is strongest and where it is best able to compete nationally and internationally for building simpler types of ships.

We know that there are challenges. Mr McMillan has also pointed out that FMPG has not been successful in two recent procurement exercises. The management team and the board are very focused on developing a revised plan for the commercial strategy and business plan. Colin Cook will know the exact dates for those, but the revised plan will be discussed at this month's board meeting, and we expect to receive the business plan soon after. Our intention is to work closely with FMPG to provide the support that we can for that while working within the legal frameworks under which we operate.

Colin, would you like to add anything?

Colin Cook: At the committee's previous meetings, I made the point that the current chair has very much strengthened the governance processes of the board. He has brought really helpful and well-qualified talent into the team. In doing so, he has made a significant impact. We expect that there will be a new business plan and a new strategy by the end of the month. We have been involved in the development of those, so we have a sense of what the new plan will say, but approving it is a matter for the board, and then it will formally come to the Government for endorsement. That will look at issues such as the direction of the investment that has been allocated and promised by the Government.

10:15

Gregor Irwin: What the yard needs now is continuity, stability and an absolute focus on the many challenges that it faces. Graeme Thomson coming in as chief executive officer is important, but we need to ensure that there is continuity and stability around him so that he has the best possible chance of doing what needs to be done.

Jamie Greene: You talk about continuity and stability, but the yard is on its fourth chief

executive since it was nationalised; that is not exactly stability.

Gregor Irwin: No, it is not.

Jamie Greene: Forgive me if I am wrong, but I am getting a sense that there is a reticence on your part to admit that, if things were not going in the right direction, you would be unwilling to criticise the board, because that would be a reflection on your input and a measure of your failure, as the strategic commercial asset division. As you are so heavily invested in the strategy and the business model, if that fails, you have failed. Therefore, you would not be willing to go on record and criticise the board. At what point would you sack the board, or when would you recommend that ministers should sack the board, if you were unhappy that the business was not run to its full ability?

Gregor Irwin: The test of what it is appropriate to do is what is in the best interests of the Government, Ferguson Marine, the local community and our wider economic interests in Ferguson Marine.

We have always been clear about our strategic objectives in our oversight of the Ferguson Marine shipyard. Those objectives have been central to the processes. As was reflected in the six papers that led to written authority being requested, there is a focus on those objectives. The test is also what is in the best interest of our ability to secure good outcomes for the yard, taxpayers, island communities and the wider economy.

Nothing is black and white. It is always the case that, when we reflect, there are some things that we could have done better, and that is true of everyone involved. However, the test of what it is appropriate to do is what is in the best interests of securing good outcomes, as articulated through those strategic objectives, for our intervention in Ferguson Marine.

The Convener: I will bring the deputy convener back in a little bit later, but Graham Simpson has some questions to put to you.

Graham Simpson (Central Scotland) (Con): Thanks very much, convener. Initially, I will ask a general question about SCAD, but unfortunately, guys, I will then go back to Ferguson Marine.

About a year ago, we had a meeting with you, and we were told at that point that there were about 40 staff employed in SCAD, at various locations. Is that still the position?

Dermot Rhatigan: Yes. I think that our headcount today is 40. Not everyone works full-time, so the full-time equivalent number might be slightly less, but we have around 40 people. We have two finance business partners who work with us. They are not in my line management chain—

they report to central finance teams—but they are essential support that is seconded to us, so those two are within the 40.

Graham Simpson: Where are the various locations that they work?

Dermot Rhatigan: My office base is Atlantic Quay, on the Broomielaw, in Glasgow, and that is the same for virtually all staff. If they have transferred from another part of the Scottish Government, their main base could still be our building at Victoria Quay in Leith, or St Andrew's house. The Scottish Government works in a hybrid way now.

Graham Simpson: You have told us that SCAD takes a light-touch approach to Ferguson Marine, and perhaps to other interests—that is, you are not involved in the day-to-day running of the company.

I see that you are shaking your head, Mr Irwin.

Gregor Irwin: I would not describe it as a “light-touch approach” at all—

Graham Simpson: You said that you were not involved in—

Gregor Irwin: We do not build the ships, we do not take decisions for the management team and we respect the role of the board. Our role and responsibilities are set out in the framework agreement, and we take those responsibilities very seriously. That is not a light-touch approach.

Graham Simpson: I am not suggesting that you do not take that role seriously, but you said that you are not involved in the day-to-day running of the yard—

Gregor Irwin: Correct.

Graham Simpson: The phrase “light-touch approach” is mine, so you should not get too upset by that.

Given that that is your approach, what are the 40 staff doing all day?

Dermot Rhatigan: I am happy to pick that up. We are organised in units, but it is probably better to talk about our four functions. We hear about cases of businesses in distress—often, those businesses come to us via our enterprise agencies, because they are account managed by Scottish Enterprise, Highlands and Islands Enterprise or South of Scotland Enterprise, which work with many businesses. The agency will say to us, “Business X is in difficulty”—it will have heard about that through its account management service.

Our first function is to brief ministers about businesses in distress. Those businesses either come in through account management, as I

described; or we might hear about a case of distress in the press; or a director might pick up the phone to us and say, “This business is in distress—is there something the Government could do?” We call that first function “business briefing”. It is not focused on intervention, and in almost all such cases there would be no financial intervention, but we need to make sure that ministers are aware of what is going on and whether job losses are likely and so on, and we have discussions about that.

I will give an example. A little while ago, Stuart Milne Group got into difficulty and we, and ministers, needed to know about that. The company had sites in many members' constituencies, so a parliamentary briefing was arranged, and there was a lot of dialogue with the company and then with the administrators. One element of what we do is simply to co-ordinate the whole business briefing aspect, including anything that needs to be done with elected members and so on. That involves quite a number of people, but, in almost all cases, there is no financial intervention.

The second function is where an intervention is at least contemplated. A business will have come to us, in one way or another, through the various channels, and there might be an intervention. It could be a case of distress: the business is running out of money or it has lost a contract, or something like that. Alternatively, it could be something positive—a business may have come to the enterprise agency and said, “We need £50 million for a new factory.” That might be bigger than Highlands and Islands Enterprise or South of Scotland Enterprise could handle, in a sense, as it is too big for their balance sheet, so they would refer it to us. Again, we would work with the company and do due diligence and so on.

Those are either distress cases, or cases where a positive investment is needed. A recent example was Harland & Wolff, which was not sure whether it would want money from the Government. There was a lot of liaison with the company and with the United Kingdom Government. Ultimately, the assets have passed on to a Spanish shipbuilder, Navantia, and there has been no intervention, but an intervention was at least contemplated.

The third function is where we have a shareholding. We have a shareholding in Ferguson Marine, which we have talked about a lot today, and in Glasgow Prestwick Airport Ltd, so we have teams that look at and sponsor those businesses. Alongside that, there are businesses where we do not have a shareholding but we have significant exposure. An example is GFG Alliance up in Fort William. We do not own the business and we are not involved with the management, but we have a big exposure. In a way, our

sponsorship of that business is almost akin to being a shareholder, because we need a lot of information about it.

Those are three of our functions. The fourth function, which we have talked a little about today, is our policy function, in our project management office. The policy function has been working on the transparency review. As I said, it is important that it is separate from the teams working on the transaction, so that they are not too close. That team has developed, with our finance colleagues, the business investment framework, and it has been working on the interventions playbook. It does the policy work and all the guidance and so on.

A remaining function is that we have payments that go out, particularly to Ferguson Marine, but there might also be arrangements with Glasgow Prestwick Airport Ltd, where money is paid out to the business for capital works. We have to manage all the financial flows.

Those are the four main functions. The 40 staff are not evenly spread among those, but you could say that they are spread among those four functions.

Colin Cook: The strategic commercial assets division was set up to provide a whole-life model for the management of interventions. If there were a case where we were looking to divest an asset, that would be handled by the strategic commercial assets division. Similarly, if another part of Government wished to have advice on any part of that life cycle, the division would offer and provide that advice, and there have been cases of that.

Graham Simpson: The convener might want to explore that a bit more, but that is very useful.

To go back to Ferguson Marine, Mr Rhatigan, you mentioned that there had been a benchmarking exercise. How did Ferguson Marine come out of that?

Dermot Rhatigan: That is the content that is redacted in the FMI report. It has been alluded to already, and I think that it is relatively common knowledge that Ferguson Marine would not rank in the top tier of shipyards around the world.

Graham Simpson: I am not asking you to name shipyards or give me any figures, but how many shipyards was it benchmarked against?

Dermot Rhatigan: I do not know the precise number, but the advantage of going to a company such as FMI is that it works with many yards. It has metrics in its systems for large yards, small yards, yards that do defence work, yards that do small ferries and so on. I would have thought that it looked at a cohort of at least tens of shipyards across Europe and elsewhere.

Graham Simpson: Was Ferguson's somewhere near the bottom?

Dermot Rhatigan: The reason why I do not tell you the answer to that—

Graham Simpson: I do not see how that is commercially sensitive. We are not naming other yards.

Dermot Rhatigan: No. The reason why I do not tell you exactly where they rank is because that information would be of benefit to competitors of the yard, and it could be the kind of information that would deter a customer if they knew where Ferguson Marine ranked.

Graham Simpson: Well, it really is not. Given the recent performance of Ferguson's, it does not take a genius or a shipbuilding expert to figure that one out, does it?

Dermot Rhatigan: Clients of the shipyards can draw their own conclusions from the publicly available information.

Graham Simpson: They can.

I will ask about the Glen Rosa before I ask more questions about the yard. It was reported that the cost has gone up again by around another £35 million. Did that require ministerial direction?

Gregor Irwin: No. The cost forecasts are provided by the yard.

Graham Simpson: What figure would require ministerial direction?

Gregor Irwin: Ministerial direction is a device that is available to ministers to require, in this case, the board of Ferguson Marine to do something that it does not want to do, so it is not relevant to this.

There is a question whether written authority will be required by me as the accountable officer in order to release funds to Ferguson Marine to complete vessel 802, Glen Rosa. As you know, written authority to progress was sought in May 2023 and was provided. In November last year, confirmation was sought that that authority still applied in light of cost forecasts last year, and that was provided.

We will scrutinise very carefully what we are being told by the yard about the latest cost forecast. That process is under way. We will subject the forecast to external due diligence and I will do an accountable officer assessment. If I conclude that it does not offer value for money, we will follow the established process for handling that and we will request confirmation that the written authority that was previously provided still applies. That is different from written direction, however.

10:30

Graham Simpson: Okay—I get that.

So, you will get external due diligence done: you will hire somebody from outside to have a look at it for you.

Gregor Irwin: That is the preferred model. That is what we did as part of the process that led to written authority being requested in May 2023. That does come at a cost, and there is a risk that it distracts the attention of those in management from what they need to be focused on, but that is our preferred model, because we want to be as assured as we can be that the costs are as accurate as possible.

Graham Simpson: What would you have to spend to get that due diligence done?

Gregor Irwin: We will put it to competitive tender, so I am not entirely sure that I want to put a price on it, but I suppose that there will be public information for previous instances. Is that correct?

Dermot Rhatigan: Yes. Because we negotiate with suppliers, we do not want to tell them what the top end of our range is, but I imagine that it would be in the region of £100,000—although it could be higher than that.

Graham Simpson: That is not a small number.

Gregor Irwin: No, it is not.

Graham Simpson: As things stand, the yard has said that it will need another £35 million but the Government has not said, “Yes, you can have it.”

Gregor Irwin: The cost forecast estimate was produced two weeks ago, if I remember correctly. We are scrutinising those numbers just now. I have an obligation to the Parliament to fulfil my role as an accountable officer, and that AO assessment will need to be provided. Advice will be provided to ministers on that basis.

Graham Simpson: As things stand, the money has not been approved.

Gregor Irwin: No. As you would expect, the process takes time and things should be done in an appropriate way.

Graham Simpson: If it is approved, where would the money come from?

Gregor Irwin: In the budget agreed by the Parliament, there is insufficient capital allocated to Ferguson Marine to accommodate that, so we are preparing advice to ministers on how that will be handled. That will require difficult trade-offs and decisions to be made.

Graham Simpson: It will.

Gregor Irwin: That advice is under preparation, and we are exploring the issue with ministers.

Graham Simpson: That money will have to come from somewhere else, will it not?

Gregor Irwin: Correct.

Graham Simpson: Have you identified where the money could come from?

Gregor Irwin: We are preparing advice for ministers. We have not yet sent it to ministers and we do not yet have a decision from ministers.

Graham Simpson: Ultimately, then, the decision is for ministers.

Gregor Irwin: Correct.

Graham Simpson: When would you expect them to take that decision?

Gregor Irwin: I am sure that they will take the decision at the earliest reasonable opportunity. As I say, we are preparing the advice just now.

Graham Simpson: This is just the latest increase. Is there a top line above which you will not go to finish off the vessel?

Gregor Irwin: As an accountable officer, my role is to provide an assessment around the regularity, propriety and value for money of spending such as this, and that is the process that I have followed since I have been in the role, every step of the way.

If I make a conclusion on the basis of a value-for-money assessment—which, as I have said before at the committee, is a fairly narrow assessment, according to the terms of the green book, Treasury guidance and the SPFM—I need to seek written authority. In the past, our ministers have provided that written authority, noting the wider economic benefits that I am unable to take into account when doing that narrow value-for-money calculation. Those wider economic benefits include not just the direct impact of salaries paid to staff in the yard, but the wider economic impact of the yard in Inverclyde. I know that the committee has a strong interest in supporting the securing of that wider economic benefit in Inverclyde and the wider area.

Graham Simpson: Okay. I will ask about the yard in general, then. We know that there is no confirmed work beyond the Glen Rosa—or, at least, none that I am aware of. I might be wrong—do you have other information? If not, it seems that once the Glen Rosa is finished, that is it—there is no more work.

Colin Cook: There is currently no significant contract. The yard has been doing work for third parties—for example, painting work and things like

that—but, at the moment, it is still looking for significant new contracts.

Graham Simpson: Yes, and it has recently lost out on a couple of contracts that it might have been hoping to win. With regard to the yard's future, therefore, if that remains the case and it does not win any significant contracts, despite the extra capital investment that is going in, what will happen? Have you worked out what you will do if that remains the case?

Gregor Irwin: At the moment, we are absolutely focused on securing a long-term sustainable future for the yard. We are open-eyed about the challenges in that respect, and there is no doubt that the very recent Western Ferries (Clyde) Ltd decision was a setback for the yard.

The current work on the commercial strategy and the business plan is critical in the process. We have previously told the committee about work to secure partnership with larger European shipyards, which would help address some of the competitiveness challenges that Ferguson's faces. Those discussions are continuing, so there is a limit to what I think that it would be appropriate to say about that, but it is an important part of the approach that we are taking.

In the draft commercial strategy that I have seen, which will feed into the business plan, there is a wide range of potential opportunities that the yard believes would absolutely fit its strengths. With the right approach taken in the months ahead, including the successful delivery of Glen Rosa, the yard will be well positioned to secure that work. I have no doubt that that is going to be difficult, but that is where the focus needs to be.

It is true that we need to consider all possible futures for the yard, but the focus is very much on securing a strong, sustainable future for it.

Graham Simpson: We all want that, of course—we know that. My question, however, was about what would happen if the yard were to be unsuccessful in winning that work. At some point, a decision has to be made, has it not? What happens then? You cannot just keep the yard going with no work.

Gregor Irwin: That is correct, yes.

Graham Simpson: Do you have a timescale for that?

Gregor Irwin: We do not have a timescale for that, and we have not reached a decision point of the sort that you have described. As I have said, we are absolutely focused on doing everything that we can to secure a sustainable commercial future for the yard, and there is more than one way in which that could happen. We understand perfectly the challenges that we face, but, while respecting our respective roles in the process, we

are, collectively, doing everything possible to maximise the chances of a successful future for the yard.

Graham Simpson: Before I move on to Prestwick—

The Convener: Briefly, Graham.

Graham Simpson: Absolutely, convener. In that case, I will move on to Prestwick. My question will be quite quick.

We heard previously from John-Paul Marks, when he was in the Scottish Government, that there was new interest—there was interest before—in buying Prestwick. What is the current situation?

Gregor Irwin: There is a process under way. It began last year, when we saw expressions of interest in GPA as part of a market testing exercise. It is fair to say that we are at the most intensive stage in the process and that we are doing what we can to ensure that it reaches a satisfactory conclusion.

I hate to say it, but I think that there is a limit to what I can and should say to the committee. The DFM has committed to coming back at the appropriate time to inform the Parliament on any significant developments in that process. The matter is being progressed in a professional and satisfactory manner and I hope that we will be able to tell you more about it in the near future.

Graham Simpson: That is fine. Thank you.

The Convener: I will move things along straight away and ask Colin Beattie to put some questions to you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I am a bit concerned about one particular area. Last year, witnesses told us that SCAD does not conduct horizon scanning of at-risk companies, sectors or whatever and that requests for support simply get referred back. You have referred, for example, to the enterprise boards and so on as being one of the conduits. Is that not a high-risk approach? If you are just waiting for things to come in, do you not risk missing critical issues out in the market?

Gregor Irwin: I will bring in Colin Cook to respond to that question. It is a bit hard to address the specifics of what was previously said without having it in front of us. However, to address the substance of your question, Colin can explain the approach that we are taking now.

Colin Cook: I think that what was said was that we had not adopted EY's recommendation in the way that it had framed it, which was that we should monitor on an on-going basis a list of whatever number—50 or so—strategically important businesses in the Scottish economy. We

initially went through that exercise, but we decided that there were better, more flexible and more agile ways of monitoring what was happening outside in the business community, including taking a sector-by-sector approach and intervening when we picked up, say, an issue that had to be dealt with.

We have been able to do that successfully on a number of occasions. Although there is no daily monitoring of a list of strategically vital companies, the sector-by-sector horizon scanning processes that are going on will enable us to identify those things and act quickly if there are any issues to address.

Colin Beattie: I am going by what is in the document, but the EY report states that

“the Scottish Government should formalise monitoring of companies of strategic importance in Scotland”.

You would expect that to be happening as a matter of course, but the response seemed to indicate that that was not the case—that is, that the process was happening more by referral than through proactive monitoring of the market.

Colin Cook: No, there is proactive monitoring of the market. It is just that we have chosen to do it on a sector-by-sector basis, because we think that that is more efficient and allows for greater flexibility than doing so purely on a company-by-company basis. That is the only difference from the approach that EY recommended. The outcome is the same and, based on experience, we would argue that it is a better way of operating.

Colin Beattie: I guess that there are arguments both ways on that one.

Colin Cook: Yes.

Colin Beattie: The information that we have shows that requests for support come in from various parties—again, you mentioned the enterprise boards earlier. I think that you had about 40 staff at that time, but how many staff are actually engaged in the analysis of at-risk companies or sectors?

Colin Cook: Dermot Rhatigan will immediately correct me, but I think that we have seven staff in what he referred to as the business briefing unit—that is, the team within SCAD that carries out that work and the other functions that Dermot described. They are, of course, able to draw on a much wider network. We have a team of economists in Gregor Irwin’s DG area, and we have the people who are employed by the enterprise agencies and are out and about, meeting businesses and working with them on an account-managed basis. There are plenty of ways in which that intelligence can flow into the organisation.

10:45

Colin Beattie: The one thing that I have not got a feel for is the sorts of volumes that are coming forward. You say that you have staff who are basically dedicated to that purpose. What sorts of volumes are they dealing with? Some companies might be quite complex, which could take up weeks or months of someone’s time. How many staff do you have sitting there, for example, at the moment?

Dermot Rhatigan: It varies. We see trends in these things; for example, when construction companies go, they tend to do so in a cluster. We see small subcontractors and others going, because of a downturn in house starts or something like that.

As I have said, it varies, but, on average, the team might be dealing with 10 cases. Some of them will be very ephemeral; if, say, a call centre is closing in one part of the country, there will be a lot of briefing about it, depending on the number of jobs involved, but the case will come to a conclusion within a few months. The Harland & Wolff case, however, went on for a long time. There was a lot of engagement with the UK Government, because the company had assets in Belfast and the south-west of England. That one went on for a long time, as I have said, and it led to a good conclusion with regard to the sale.

There are other cases that are not economically significant, but which have a political or community dimension. Some involve cultural assets, such as theatre groups, or social enterprises, where the workforce has certain characteristics that make it more difficult for those people to get back into paid employment if their jobs go.

There is quite a variety of cases, and they all have different characteristics. Some businesses are quite isolated, while others are part of a supply chain. With BiFab, for example, one of the reasons for Government intervention was that the company was a key part of the supply chain for the Beatrice offshore wind development.

In some cases, we have to think about the importance of the business and the number of connections springing from it. If the workforce is going to be downsized, what are the prospects for those people coming back into employment? Does the move affect a town in particular? For example, we have looked at cases related to sea fish processing. If an employer is located in a small town in, say, the north-east, and it goes, it will have a very large impact on that town.

All the cases raise different issues. The average case load is 10 at a time; some will be dealt with over a short time, while others might go on for a year or more, depending on what is happening with the business.

Colin Beattie: I was interested in your reference to theatre groups, which I would never have linked to what you do. What are the criteria for getting involved in the cultural side of things? Is it the number of staff? Is it the impact on the local economy?

Dermot Rhatigan: I will not mention names, but a lot of cultural bodies, such as theatres, run on tight budgets and rely quite a lot in Government grants. They are always relatively fragile, but they are important assets for communities and cities. The creative industries team come to us and say that a theatre or national company has an issue, and we look at the case and help. In such cases, we really support the body and, often, it does not result in job losses, because a funder or charitable organisation might well put money into that kind of business.

I gave that as an example to show the very broad range of organisations that we would pick up, from big industrial companies right down to social enterprises and cultural bodies. We are sector agnostic; as long as the companies have been deemed as having strategic importance to the Government, we will look at them.

Colin Cook: That was a good explanation of the process that I was trying to describe earlier. We found that having a more narrow list of, say, 50 businesses that was predicated on turnover, number of staff employed or such metrics was not the most effective way of supporting ministers. For example, there is a group of cultural organisations that might not have met those criteria but which have a massive impact on the life of a community, say, or the international reputation of Scotland. The sector-based approach allows for those to come under SCAD's purview.

Colin Beattie: So, there are seven staff members handling prospects, if I can put it that way. What do the other 33 do? Are they placed with the existing investments?

Colin Cook: Dermot Rhatigan outlined the sort of through-life process that SCAD offers. Some staff, as you say, manage the existing shareholder relationships with FMPG and Prestwick as well as our interests in the Lochaber smelter assets and the work of the GFG Alliance, while other staff look at potential divestments and all those kinds of things. We work throughout the life cycle or life model.

Colin Beattie: You are not operational or part of management, so having 33 people handling relatively few businesses seems like an awful lot. I am not saying that they are not needed—I am just wondering how the work is allocated.

Gregor Irwin: We can provide you with more information on that, if that would be helpful. According to the numbers in front of me, a team of

five are directly involved in sponsorship and oversight of Ferguson Marine—if I have that right—and six are working with Glasgow Prestwick airport and the Lochaber smelter and managing our interests in the BiFab administration. Therefore, we have 11 staff directly working in those areas.

We also draw in finance, business partners and other expertise, as appropriate. The workload on a project—for example, with Ferguson Marine—can vary considerably, too, so we sometimes bring in additional capacity. We have a process at GPA at the moment, and the project management office has been involved in that, too. Our staff is flexible and works across those different functions.

However, the workload is intense. Even addressing the FOIs that were referred to earlier requires a considerable amount of the team's time and attention. The transparency review is a really important exercise, but it takes time; indeed, just going through the documents takes a lot of time. People with the relevant expertise are literally looking at documents line by line to decide what we think it is appropriate to release through that process, given the parameters.

Colin Beattie: Although small in number, the existing investments are very diverse in terms of the skills and expertise needed to understand the businesses. I know that you bring in consultant expertise to manage that—and I will come on to the subject of consultants in a minute—but how much expertise do the people in SCAD have in the sectors into which your current projects fall? I ask the question, because you might be looking at dealing with other sectors outside of the limited number that you already work with.

Do you see where I am going on this? I am trying to understand how the people in SCAD get the expertise.

Gregor Irwin: Dermot Rhatigan might wish to add something, but I think that it is really important that we focus on what we have to do.

An important element of expertise is to understand the frameworks under which we have to operate to ensure that we are providing the right sponsorship of those bodies; that there is good governance in place; and that financial management is as strong as it can be—the role of finance business partners is important in that regard. We need to draw on expertise in subsidy control and procurement and on legal expertise from across Government.

The model for SCAD, which was set up in large part in response to the work of this committee, Audit Scotland and others, is to ensure that we have those capabilities within a single division so that they can be deployed flexibly. We are mindful of the fact that, although we do not know how to

run an airport or build ships, for example, we need to form the right level of understanding of how those businesses operate and to draw in expert technical advice at the appropriate time and in the right way.

We also work flexibly with partners, including Scottish Enterprise, which is very familiar with the whole cluster of activity around Glasgow Prestwick airport. We are flexible in our approach, while always being mindful that we cannot replicate the expertise that is embodied in the organisations of which we have oversight.

Colin Beattie: Given what you have said, are you satisfied that, as far as possible, ministers are not going to get surprises coming down the line? I understand from what you are saying that you are doing horizon scanning, and you should, therefore, be picking up any issues arising in the market. The last thing that anybody wants is a sudden emergency that creates a crisis. Are you satisfied that what you have in place will pick that sort of thing up at an early stage?

Gregor Irwin: I am satisfied that it is proportionate and we are taking the right approach. There will always be surprises—macro political and economic shocks will occur and will impact on the economy in ways that are not always foreseeable—but we need to be able to adapt our approach to surveillance of companies that are potentially at risk in order to respond quickly to changing circumstances. I am confident that the approach is right, but of course there will always be surprises.

Colin Beattie: My last question is on the use of external consultants, which always raises questions. In 2023-24, you appear to have spent £1.6 million on external consultants. What sort of spend do you have for 2024-25?

Dermot Rhatigan: I will pick that up. We have a budget for consultancy that has, for the past few years, been fixed at £1.9 million—

Colin Beattie: I am sorry—how much did you say?

Dermot Rhatigan: We have a budget of £1.9 million. In the financial year that has just closed, in 2025, we will be significantly over that.

The biggest factor that is pushing us over that amount has been the work that we have been doing—and which, as Gregor Irwin has described, is currently very intense—around Glasgow Prestwick airport. We had approaches from people who were interested in the airport, and we started to market it and seek expressions of interest. There have been a number of diligence processes to get to where we are now, as Gregor Irwin has described. That has been expensive, and it has essentially been demand led, in the sense that the

work came forward as a result of the industry taking an interest in the airport. For 2024-25, the amount spent will be over £3 million in comparison with our budget of just under £2 million.

Colin Cook: I just want to give the committee an assurance. We have talked previously about the role of the strategic assets review group, which Gregor Irwin chairs. At every meeting of that group, we report on the consultancy spend that is being incurred, and we look at it and test ourselves to make sure that it is appropriate.

Colin Beattie: But all of the excess over your budget relates to Prestwick.

Dermot Rhatigan: The bulk of the excess, yes.

Colin Beattie: The bulk?

11:00

Gregor Irwin: It is fair to say that an intensive process for Prestwick was the element that we were not planning on when that budgeting process was undertaken. That is the bit that we were not necessarily expecting to do in 2024-25.

Colin Beattie: My next question was going to be about the £1.6 million. Is that the level that you expect it to be going forward? I am not sure what your answer will be.

Gregor Irwin: It depends on the circumstances that we face—very obviously, it depends on what happens with the Prestwick process. The key point is that there is proper oversight and scrutiny of the budgets that Colin Cook has referred to; that we constantly ensure that we are not incurring unnecessary expenditure; and that we are extremely demanding of our advisers. I would certainly like to think that we are.

The Convener: In the interests of time, I will go straight to the deputy convener.

Jamie Greene: I have a lot of ground to cover, so I will try to rattle through it. I am sorry if I revisit earlier subjects—that is just the nature of questions.

I have some unanswered questions on Ferguson Marine. Has anyone in the Scottish Government, particularly in your divisions, asked Ferguson Marine what exactly it needs £35 million for?

Dermot Rhatigan: Yes. We have received the plan for Glen Rosa, which is being scrutinised by our technical advisers. The first stage is to look at the plan, which is very detailed and has many layers. Our advisers, CMAL, are going through that, and we are challenging the sequencing of activities. For example, the plan might say that a certain amount of pipework will be installed before a gearbox is installed. At that level of detail, we

would go to our technical advisers to ask whether the sequencing of the plan makes sense, whether it is in a logical order and whether it is complete. They will consider that, as well as, for example, whether the work involves Ferguson's resources or requires the use of subcontractors.

Once the plan was stable—the yard worked on that for quite a long time—it was costed out by the finance team at Ferguson Marine, which came up with the figure of £172.5 million, plus £12.5 million of contingency. One of the first stages of looking at the costs is to probe whether the contingency number is just a flat percentage that is applied to the £172.5 million or whether there are individual lines. We have worked through that with the yard.

As Gregor Irwin said, we now need to interrogate that for the AOA process. It is likely that we will bring on board an external adviser who will literally work through lines in the financial model to make sure that it works in the way that an accountant would expect it to work, and that it is generating numbers that can be relied on.

The first stage is a review of the plan, and then we go on to the cost accounting. CMAL will help us with the challenge of the plan, and then an adviser and our own financial officers will interrogate the cost model to make sure that everything has been driven down.

Jamie Greene: I want to get this straight, because £35 million is a lot of money—it is nearly the original planned cost of the whole vessel, and it is on top of what has already been spent. We are talking about some really big numbers. I am trying to get my head around what is driving that huge overrun. There must be an elephant in the room. Something must be driving such a massive cost overrun. Is it something that was installed that does not work? Is it something that has not been installed but which is now defunct? Is it the cost of the people? I have no idea whether the overrun involves capital expenditure or resource spending. At the end of the day, it is public money, so we surely have a right to understand what the yard is asking for.

Dermot Rhatigan: We have started work on breaking down the cost numbers—so far, the focus has been on the plan and the activities in it.

Various headings will be driving the increase to £35 million. Some of it comes from subcontractor costs that have risen. Also, lessons have been learned from the Glen Sannox: as we work through the vessel, we realise that some things that were done in the wrong way on the Glen Sannox were also done in the wrong way on the Glen Rosa, so there is an element of rework that is still being worked through. Further, updated costs are being allocated to activity—that is, to various

processes that have been carried out by the yard staff.

Jamie Greene: Presumably, on top of the £35 million, there will still be the on-going monthly operational costs to keep the yard running, which include staffing costs and so on. Is that in addition to the extra capital that has been asked for? How much is that?

Dermot Rhatigan: The yard comes to us for contractual payments, which we look at on a monthly basis. They are scrutinised by CMAL for us, and our own finance officers scrutinise them. Those are contractual costs.

The yard also has some costs that it cannot allocate either to the vessel contracts or to private work. For example, when it was building two ferries at the same time, it would have allocated the rates bill roughly between those two projects. Now it has only one vessel to build, and the rates bill cannot be allocated entirely to the Glen Rosa. That leaves some costs that cannot be reduced; they have to be paid but we would classify them as under-recovered. For the year 2023-24, under-recovered costs were small—they were £0.5 million. In the financial year that has just closed, to the end of March, we are expecting the under-recovered costs—the ones that cannot be recovered from contracts—to be in the region of £3.2 million.

Jamie Greene: Is £3.2 million the base cost of keeping the yard's lights on and keeping the workforce in it?

Dermot Rhatigan: We would not look at it in that way. If you are employing people, it is a legitimate cost to recover from a contract, whether that is for the Glen Rosa or the Glen Sannox. Certain costs can be allocated to private work for BAE Systems or for anyone else—some of the overhead can be allocated to them. However, you are always left with a residual.

In the past year, the yard bid intensively for two pieces of work: for the small vessel replacement programme and, as Gregor Irwin mentioned earlier, for Western Ferries. There was a lot of design work and bidding costs for those. For SVRP 1, which was a £175 million contract, the bidding costs ran to hundreds of thousands of pounds. There were very large bidding costs. That cannot be allocated to the Glen Rosa build or to private work, such as that for BAE. It would be an under-recovered cost. However, we want the yard to do it and it is a legitimate expense. We expect the yard to bid for work, and the cost has to be covered by us.

Jamie Greene: It is unfortunate that it spent that money and did not get the contracts.

Did anyone in the Scottish Government advise ministers to directly award any of those contracts? For example, presumably it would have been in the interests of the yard to be given the small vessel replacement programme work. Did SCAD offer any advice to ministers about whether they should directly award that work and, if so, what was the ministers' response?

Colin Cook: The procurement of the vessels is a matter for a different part of the Government through its contracting organisation, CMAL. It is not a process in which SCAD would have been directly involved.

Jamie Greene: Is that not strange, though? Would SCAD not want the yard to get work? Did you not make representations either to CMAL or to the transport division of the Scottish Government?

Colin Cook: There are people in the Government who oversee the management of Ferguson Marine and, from a shareholder perspective, I want to do everything that I can to ensure that it gets future work—like everybody in this room does and everybody who is working at the yard does. However, the procurement process is done by a different element of the Government and it is taken through a different line.

Gregor Irwin: As part of the work that is done by CMAL, Transport Scotland and that side of Government, consideration was given to the question of a direct award before we got into the procurement exercise. However, as the Deputy First Minister noted, the ability to do that is restricted for a number of reasons, including subsidy control.

In a highly contested market, there are risks associated with that process. If you proceed with a direct award without being very confident of your legal position, there is every prospect that that will be subject to a legal challenge, which would have proved detrimental to the yard and would have delayed the procurement of the vessels. A number of different interests were seeking to be managed through that process.

Jamie Greene: Moving on to another strategic investment that is under your control, has the Scottish Government undertaken any current analysis of developments with regard to Liberty Steel?

Mr Irwin, you will be aware of yesterday's media reports about attempts to adjourn a winding-up petition that was lodged by one of Speciality Steel UK Ltd's creditors and could result in it being forcibly moved into compulsory liquidation. Given that the Scottish Government has had and still has interactions with the company, is that a risk?

Dermot Rhatigan: I can pick that up. We do a lot of monitoring of companies in the GFG Alliance

group. We might send English solicitors to observe court cases in England if we think that they have ramifications for the Scottish businesses. We also speak directly to executives in the GFG group, particularly those in Liberty Steel.

The company that you have referred to, Speciality Steel, is a large business. It does not have any employees or operations in Scotland—I understand that it is mostly based around Sheffield and Rotherham. However, it employs 1,500 staff and it is a strategically important business, so we take an interest in it, because what we could have is contagion within the Liberty Steel group. We would want to know if the winding up of one large element of it would affect the businesses in Scotland, particularly Liberty Steel Dalzell.

We take an interest in it, we do active monitoring of it and we speak to the business. The business has told us that those two subsidiaries of Liberty Steel Group—Speciality Steel and Dalzell—are not linked. One does not supply the other; they each have a different product range.

Speciality Steel is an important business because it produces very high-grade steel products that go into the defence and aerospace sectors and so on. Based on discussions that we have had with the UK Government, I know that it is interested in that business because key businesses, such as Rolls Royce and others in the aerospace supply chain, rely on Speciality Steel. However, as I say, from what we have been told, we do not think there is an inter-company lending connection between the two businesses, and Dalzell and Speciality Steel do not buy products from each other.

We will see what happens today. I think that the order might be given that that business will be wound up and go into administration. At that point, we would probably have discussions with the administrator in England and work out whether there are any connections with the Scottish Government. However, as I say, GFG Alliance is telling us that the two subsidiaries do not have a strong interaction.

Jamie Greene: That is helpful. Just to be clear, at the moment, there is no identified immediate risk of the Scottish Government being a creditor to that business, if it is liquidated. Is that correct?

Dermot Rhatigan: The Scottish Government has no links with Speciality Steel.

11:15

Jamie Greene: Equally, to your current knowledge, if that business collapsed, that would have no knock-on or sideways effect on any current Scottish Government investments. Is that correct?

Dermot Rhatigan: Yes—we are monitoring that, and we take indications from the business. If the business goes into administration, we would also be able to have discussions with the administrator to ask those types of questions. As far as we know, however, the two businesses are not intimately linked.

Jamie Greene: I refer back to the previous line of questioning. This may be a wider SCAD question. It is about how you take decisions or make recommendations to ministers about interventions.

I presume that each of your current interventions was inherited when SCAD was set up. They are not proactive decisions, if you like, that were made by your department to intervene in the market. You have BiFab, Prestwick and Lochaber—steel, shipbuilding and airports. Those are heavy industries and strategic national assets.

Another member posed a question about the fact that a lot of businesses knock on your door looking for support and help when they are failing or in distress. My question is this. Since SCAD has been established, how many other companies have you actually supported?

Dermot Rhatigan: I will pick that up. To go back to the thrust of your question, you are right, and I want to emphasise that that is partly why SCAD was created. Transactions were made over recent years and were undertaken by teams that had a sectoral focus. If an intervention was proposed in manufacturing, the manufacturing team would lead on that. If a renewables supply chain company was involved, the intervention would be led by the folk who normally work on renewables. With the airport, aviation policy people would have picked it up.

The risk of that approach was that the learning was not consolidated, and we did not bring together the management of those assets. We have now brought those together in SCAD. We still have links with all the policy teams in aviation, manufacturing renewables and so on, so we can still draw on that work.

The other point to make is that when SCAD was created in 2022, we were still in the wake of the Covid pandemic and its repercussions. There was a lot of public sector support that was led principally by the UK Government, but that also happened in Scotland. There was an expectation that we might need to be more interventionist for a period of time, but in reality, that has not come through—

Jamie Greene: I am really keen to get an answer to the question, if that is okay.

Gregor Irwin: In terms of large-scale interventions—

Jamie Greene: Any interventions.

Gregor Irwin: There have been no other large-scale interventions, but we provide support to businesses in a range of different ways, and sometimes that support is indirect. For example, there may be circumstances in which there are redundancies and we need to provide support to the workers who are affected. The business briefing unit, working with partners elsewhere in Government, will ensure that that process is as efficient and effective as it can be. There may be a Skills Development Scotland angle there.

We also work closely with the enterprise agencies, and sometimes those agencies, going through their processes and working through their governance, may be the right party to help a business that is facing a particular type of challenge. There are circumstances in which, through our triage, the enterprise agencies have picked up the challenge of working with a business.

There is a third category, which might be typified by Grangemouth. In that case, there is a set of businesses that clearly form a cluster of major strategic importance to Scotland, and we are working with a range of different partners. One of the primary forms of support is through project willow and the just transition fund, and, working with the United Kingdom Government, the National Wealth Fund has also become involved.

I use that as an example of the range of different ways in which Government can get involved in supporting businesses that are in difficulty.

Working with partners across Government, SCAD brings rigour, discipline and good decision making to that process, so that we ensure that we are taking the right approach in the right circumstances. Often, that will mean that there is no role for the Government or those agencies.

Jamie Greene: Do you not see that the Government has clearly made decisions to intervene, financially, in certain industries and certain companies to the tune of billions of pounds of public money? People are knocking on your door on a daily basis, looking for support. An interesting point was raised earlier about other sectors, such as culture and the arts, those that have a social impact, the third sector and so on. Organisations are really hitting financial walls. Mr Rhatigan made the point that, when those organisations go under, the people who are employed in them find it more difficult to find alternative work and, therefore, the economic outlook for those people is poor. However, none of those organisations seems to have received any intervention from you, so can you see why people might think that you are pumping billions of

pounds into steel, shipbuilding and Prestwick airport—I am not saying not to do that—and that the other side is getting absolutely nothing?

Gregor Irwin: I might bring in Colin Cook because he has been very intensively involved with challenges for social enterprises. Colin, there might be a limit to what you can say about specific cases, but I will leave it to you to explain the approach. We are very much involved in trying to provide appropriate support to a wide range of businesses.

Colin Cook: Yes, I can add to that. As you have observed, deputy convener, since the creation of SCAD, there has not been a decision for the Government to take an ownership stake in a particular enterprise. That is true, and you are absolutely correct that the enterprises that we are managing pre-date SCAD.

There have been many occasions when we have offered advice and our enterprise agencies and others have offered support. We are working with a number of organisations, including in the social enterprise sector, as Gregor Irwin mentioned, where some form of Government assistance might be required to allow the organisation to continue and to prosper. However, that is likely to either fall short of Government ownership or to be a different type of intervention from Government ownership.

Gregor Irwin: Procurement is an example of one of the ways in which we interact with some social enterprises. Again, in the case of procurement, we operate within a clear legal framework around subsidy control. However, we are as creative as possible, working within the legal frameworks within which we have to operate. We make good accountable officer assessments about the return on investments in providing appropriate support that is delivered in the right way by the part of the system that is most capable of providing that support. However, we should also recognise that we often have to advise ministers not to intervene.

Jamie Greene: I am sure that that is the case, yes.

We could spend all day talking about the business investment framework, but we do not have time. You will be aware of the heavily redacted reports that the committee has been given. I have a simple question, given the sheer levels of redaction. For the benefit of people watching, I am holding up what we were presented with—the risk register, the contingency and so on are blacked-out pages. I am not making this up. If I were to submit an FOI request for this document, would I receive more information than I have been given as a committee member?

Colin Cook: No. The redactions were based on the application of FOI principles, so those two approaches would be consistent.

Jamie Greene: What are you doing to ensure that committees such as the Public Audit Committee, as well as Audit Scotland and other independent bodies, have access to information for the purposes of transparency and accountability, so that we can evaluate value for public money and not be presented with lots of black pages?

Gregor Irwin: The fact is that we have redacted information that is commercially sensitive. If we are not careful, the information will jeopardise the future of Ferguson Marine and make things even harder. In the Western Ferries procurement exercise, Ferguson Marine lost out to Cammell Laird shipyard. We need to be careful about the information that we publish.

That said—this is in the transparency review—we need to recognise that we can do more to improve transparency. We want to change the way that we commission and structure reports so that, although commercial sensitivities are handled, you will get more information about the issues that are being addressed in those reports. We absolutely want to go as far as possible in that regard and in our review of individual reports to help you and to ensure that we are as transparent as we can be.

The Convener: As the saying goes, the proof of the pudding will be in the eating.

I want to tie up a few loose ends before we finish the evidence session. First, on that last point, why on earth are there any commercial confidentiality issues around the terms of reference for the study by FMI?

Dermot Rhatigan: That could have been sensitive for FMI itself—if it did not want to reveal the scope of its work and what it is doing—

The Convener: I am sorry, but this is work that the Scottish Government, using public money, has commissioned a private consultancy company to carry out. Why should we not at least know the scope of its work and its terms of reference?

Dermot Rhatigan: We can reflect on that again, because, as Gregor Irwin said, we have committed to periodic reviews of these things, and some things become less sensitive over time. In essence, the report is trying to ask, “What kind of shipyard is this? Is it a competitive shipyard?” and so on. On the basis that the shareholder is asking for that information, a reader could infer that it is not a competitive shipyard. We have tried to put ourselves in the mind of the reader and consider what they would infer from the language, if they were a supplier or a customer, for example.

The Convener: The Public Audit Committee deals with optimism bias a lot of the time, but, this morning, I think that we are experiencing some pessimism bias. I do not think that it is unreasonable to expect that the objective terms of reference of a piece of work that has been commissioned by the Scottish Government should be in the public domain.

Gregor Irwin: What you are saying is reasonable.

I do not have the unredacted version of the report in front of me, but I could conceive of circumstances in which we would ask, in the terms of reference, for a very specific piece of analysis to be done, which could be commercially sensitive. That is an example of why it might be appropriate to redact that information. However, let me reassure you that we take very seriously the challenge of ensuring that, in our future procurement of commercial advice and reports of this sort, we will structure them in a way that aids transparency. I also assure you that we ensure the minimum terms necessary for the provider to be willing to contract with us but without creating additional difficulties with regard to our being transparent subsequently. That is one of our reflections on the process that we have been through as part of this review. We can do more to support you, and we want to do that.

The Convener: Okay. We will see what happens in the future.

I turn to some of the other recommendations in the transparency review. Can I get an update from you on where you are with that? You pledged to create a web page with up-to-date information on SCAD and its work. Have you done that?

Gregor Irwin: That will be launched in early summer.

The Convener: Okay, so you have not done that yet.

You pledged to establish a transparency assurance panel to review the sensitivity status of material that is recorded in SCAD's register of commercial advice. Have you established the transparency assurance panel?

Gregor Irwin: The terms of reference for and membership of the group are being developed. We expect the first meeting to be in September this year—

The Convener: So that is a no as well.

Gregor Irwin: I am happy to explain—

The Convener: The answer is not yet, is it not?

Gregor Irwin: The proposal is for the group to meet in September this year. You will see that we want to have a biannual review, so that is in good

time for that. It is being done in the appropriate way. We need to make sure that we set that group up in the right way.

The Convener: You also agreed to a recommendation that emanated from this committee's work on the arrangements for ferries 801 and 802. The committee took evidence that suggested that there had been direction to the board of CMAL in the guise of shareholder authorisation. Is it correct that you have committed to publishing information about such instances, so that the Parliament will be notified when equivalent things happen in the future?

11:30

Gregor Irwin: There is an important distinction between shareholder authorisation and written direction. The circumstances under which shareholder authorisation is required are set out in the framework agreement. That is a regular part of our relationship with the assets that we sponsor. There is a commitment to publish summaries of shareholder authorisation data by type of approval and date on the website.

However, as I said, that is a regular part of the relationship, and it is set out in the framework agreement. Written direction is different. That is when ministers—

The Convener: Written authority.

Gregor Irwin: Written authority is different again. Three different issues are being conflated, and it is really important that we separate them.

There is shareholder authorisation. There is written authority, which an accountable officer might seek if they are unable to be assured that they are operating in a proper, regular manner that is consistent with value for money. Written direction is when ministers, as shareholders, instruct the boards of one of our strategic assets to do something that they would not otherwise be willing to do.

In the case of Ferguson Marine, the framework agreement already says that, if that happens, it will be disclosed to Parliament in a manner that is, roughly speaking, consistent with the process for written authority. We have committed to update the business investment framework in the SPFM to record instances in which a written direction has been provided for assets that are managed by the strategic commercial assets division.

The Convener: Again, we will view that in light of future experience.

I turn to the other issue that we have been looking at this morning, but have not significantly dwelt on. Again, I just want to run through this as a matter of record. One of the pieces of information

that you disclosed to us in February, which was quite transparent and open of you, was the EY study into BiFab. At the end of that report, EY made a series of recommendations to the Scottish Government about how it might improve things in future cases.

As we have touched on already, the report spoke about identifying

“key sectors ... of strategic importance”

that the Government ought to identify. It also said that

“SCAD should ... engage with public sector agencies”.

We have heard a little about how that goes on, although I would be interested to know whether the Scottish National Investment Bank is part of that engagement process.

I turn to three particular recommendations in that report, and I will ask you, director general, whether you have implemented those recommendations.

One was a recommendation that the Scottish Government

“should establish a standardised triage process for intervention requests”

in order to establish a “go/no-go” decision framework. Have you done that?

Gregor Irwin: Yes.

The Convener: Excellent. The next recommendation was on the establishment of

“An independent panel ... to provide challenge and review of proposed interventions.”

Have you established that?

Gregor Irwin: We agree with the substance of that recommendation, but we are addressing it in a different manner. Rather than setting up an independent panel, we are using SARG—the strategic assets review group—which is already established and fulfils that function. SARG was set up in May 2022 and provides that internal scrutiny. I chair it, but the internal challenge comes from a range of other participants who are on the group, including other directors general, the permanent secretary, a non-executive director and the chief financial officer and CEO of Transport Scotland. There is a well-established body that fulfils that function, and we chose to work with that rather than dismantle that structure and create a new one.

The Convener: I understand that.

The final recommendation—again, you alluded to this much earlier in this morning’s evidence session—that I want to put to you was about the establishment of

“a ‘Shareholder’ function with responsibility for managing ongoing interventions.”

I do not know whether, to all intents and purposes, that is the strategic commercial assets division’s—

Gregor Irwin: It is the core business of SCAD.

The Convener: That is fine.

I have one final question, which goes back to the GFG Alliance. You have alluded to proceedings that are currently under way around the specialist steel division, which is part of the GFG Alliance. The committee is also interested in a statement that the GFG Alliance put out in February this year, which was headed

“GFG reaches agreement with Greensill creditors on global debt settlement terms”.

Greensill, which was GFG’s financial backer, went into administration. Could you explain to us what that refinancing agreement means for the businesses that are owned by the GFG Alliance in Scotland?

Dermot Rhatigan: We are not one of those creditors, so we are not a party at the table. There are three main parties: the administrators of Greensill Capital and the administrators of Greensill Bank; in addition, some of the debts that were run up by the business ultimately ended up with Credit Suisse.

The group of creditors are called the Vienna creditors—referring to where they meet. We do not have visibility of the debt to them but, going on what has been reported in the papers, that group of creditors may collectively be owed in the region of \$5 billion—a very large amount of money. GFG has been negotiating with them since Greensill collapsed in 2021. We are four years on now. The creditors are trying to get to an agreement about the quantity of money—how many pence in the pound of the debt—that would be paid back to them. The creditors then have to agree among themselves how that would be apportioned. Does someone get paid first? Does someone get paid last? They all have different rights and securities, so it is a complicated picture, as relayed to us by GFG.

Some of the assets of the business are better, and some of them hold cash. GFG might hold cash in its Australian businesses, and the creditors there might have rights to decide whether any of that cash can come out of Australia to pay some of the other global creditors. GFG is trying to get all of the creditors aligned and signed up to an overall agreement. That is important to us because, although there is no debt from the Scottish businesses at Lochaber or Dalzell, the fact that the creditor arrangement cannot be settled is preventing the group from going to other financiers to raise more money now.

Since 2021, GFG has been prevented from taking on more debt, so the business has effectively been starved of working capital. Where that affects us in Scotland and the Scottish businesses, GFG is having to generate its own cash for any investment that it wants to make. It cannot rely on the group headquarters to give it working capital, because that is all tied up in the arrangements with its global creditors.

The Convener: What is the situation now? I refer to the comments of Mr Gupta, the executive chairman of the GFG Alliance, in his press release in February. He said that the agreement was a

“great relief ... It will enable us to push on from the deep challenges caused ... we are confident of being able to access longer-term financing to build on the significant investments we have already made”.

What does that mean for Lochaber, Motherwell or Clydebridge?

Dermot Rhatigan: What I will give you is what GFG tells us; the true picture can only be known by GFG and the creditors. GFG tells us that it signed the agreement in February, which probably locked down the quantum that would be paid back to the main creditors and, probably, the arrangements about who would be paid first and so on.

GFG has told us that the area of the business that has cash is in Australia, and it wants to free up that cash to pay back the other creditors, but the creditors in Australia have been able to prevent that.

As far as we understand, GFG reached the agreement with the main creditors, but it has not been able to execute it because of restrictions on how the cash that resides in Australia is used. On the implications for the businesses, Dalzell in particular is essentially being starved of cash. The business that we have a stronger relationship with, at Fort William, has been able to generate some cash itself to deal with its day-to-day needs. However, there is no expansion capital—there is no money there to go ahead and invest in the businesses and grow the product range, add value to the products and so on. The business is stymied, essentially.

The Convener: I will finish with this point. Earlier in the meeting, Mr Rhatigan, I think, said that he thought that the GFG Alliance arrangement in Lochaber meant that the Scottish Government had “big exposure”. The committee’s continuing interest in the fortunes and business performance of the GFG Alliance, with the Serious Fraud Office inquiries and all the other things that go along with that, lies in what exposure that places on the Scottish Government and Scottish public funds. We therefore retain a keen interest in this area.

On that note, I will have to draw this morning’s proceedings to a close. We have run quite a way over our anticipated time.

I thank our witnesses, Dermot Rhatigan, Colin Cook and director general Gregor Irwin, for their attendance and willingness to answer our questions. Thank you very much for your evidence this morning.

11:41

Meeting continued in private until 12:05.

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