OFFICIAL REPORT
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Public Audit Committee

Wednesday 25 February 2026

Session 6

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PUBLIC AUDIT COMMITTEE
8th Meeting 2026, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (LD)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Joe FitzPatrick (Dundee City West) (SNP)
*Graham Simpson (Central Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Lesley Bowie (NHS Ayrshire and Arran)
Alison Evison (NHS Grampian)
Gordon James (NHS Ayrshire and Arran)
Jeffrey Kabel (Liberty Steel Group)
Helen Lambert (GFG Alliance)
Dr Crawford McGuffie (NHS Ayrshire and Arran)
Laura Skaife-Knight (NHS Grampian)
Alex Stephen (NHS Grampian)

CLERK TO THE COMMITTEE

Claire Menzies

LOCATION

The Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 25 February 2026

[The Convener opened the meeting at 09:32]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning, and welcome to the eighth meeting in 2026 of the Public Audit Committee. Under the first item on our agenda, does the committee agree to take agenda items 4, 5, 6 and 7 in private?

Members *indicated agreement*.

Section 22 Reports: "The 2024/25 audit of NHS Ayrshire and Arran" and "The 2024/25 audit of NHS Grampian"

09:32

The Convener: Agenda item 2 is consideration of "The 2024-25 audit of NHS Ayrshire and Arran" and "The 2024-25 audit of NHS Grampian". I am pleased to welcome representatives from each of those health boards to speak to the committee about the situation that they find themselves in and their response to the Audit Scotland reports. From NHS Ayrshire and Arran, I welcome Gordon James, the interim chief executive; Lesley Bowie, the chair of the board; and Dr Crawford McGuffie, the executive medical director. From NHS Grampian, I welcome Laura Skaife-Knight, the chief executive; Alison Evison, the chair of the board; and Alex Stephen, the director of finance.

The committee has questions for you, based on the reports and on the evidence that we have taken previously, but, first, I invite Gordon James to make a short opening statement.

Gordon James (NHS Ayrshire and Arran): Thank you for inviting me and colleagues from NHS Ayrshire and Arran to discuss the 2024-25 audit report. As Audit Scotland highlighted, the board is not in a financially sustainable position. We welcome the support from the Scottish Government and the escalation to level 4 of the NHS Scotland support and intervention framework for finance. I will briefly set out the context of our position and the actions that are under way to return the organisation to financial balance over the coming years, while maintaining high-quality care, which is important.

NHS Ayrshire and Arran first entered deficit in 2017-18. Although we achieved financial balance during the pandemic with national support, deficits have returned over the past three years. Since the pandemic, patients are presenting sicker with frailty and multiple conditions. We serve some of the most deprived communities in Scotland, alongside a higher than average older population. As a result, we have one of the highest proportions of the population living with multiple long-term conditions, in both rural and island locations. That increases care complexity and cost. We also continue to experience high levels of delayed transfers of care, due to pressures in social care and care at home provision. That reduces patient flow and increases the costs of maintaining our acute bed base. Recruitment challenges in key roles add further pressure, and we are actively diversifying and upskilling our workforce to respond.

In my first six months as interim chief executive, I have focused on visible leadership and engagement. I have seen a positive culture and strong appetite across clinical and operational teams to reform and redesign pathways to deliver better value-based care. This is central to our delivering caring for Ayrshire programme.

Since the publication of the Audit Scotland report, we have strengthened our leadership team. As noted in the report, we have appointed a new director of acute services, who is driving change, and, since the report, we have brought in a temporary turnaround director and welcomed a new interim director of finance. Together with the wider executive team, we are focused on operational grip and long-term transformation. I have identified a number of key priorities, namely updating our corporate objectives and streamlining them, and I have delivered short-term financial improvement through strengthening grip and control.

We are refreshing our integrated performance management process from board to ward. We are establishing a programme management office to support savings, delivery and transformational change. As I said, we are refreshing our multiyear transformation plan, aligned to the Scottish Government service renewal framework and population health framework. Clinically led pathway reform is key. We have established a pan-Ayrshire transformation board with our three council partners, and I am working with chief execs, as other colleagues are, on subnational west planning and delivery in taking a fresh approach to planning and delivery in the west of Scotland.

Through this work, my overriding priority is ensuring that clinical quality and safety remain at the centre of everything that we do. We are committed to delivering high-quality care, while supporting the wellbeing of our staff in the communities that we serve.

We welcome any questions that the committee has.

The Convener: Thank you, Mr James. I now turn to Laura Skaife-Knight to give an opening statement from NHS Grampian.

Laura Skaife-Knight (NHS Grampian): Thank you for inviting me and NHS Grampian colleagues and for the opportunity to make a brief opening statement. I begin by fully acknowledging the seriousness of the challenges that we face and reaffirming our commitment to making the sustained improvements that are necessary for our patients, community and staff.

We are caring for more older patients, with rising patient acuity, and we have seen a marked increase in multimorbidity across all age groups. Over the past five years, NHS Grampian has experienced a significant increase in its population aged 65 and over, with more than 6,000 additional older residents now living in the system. That demographic shift is increasing the complexity and intensity of the care that is required across acute, community and social care services. We must ensure that our health and care system is equipped to respond to the changing pattern of demand, recognising the implications for the workforce, capacity and the cost of delivering safe, effective and sustainable services.

Today, we will share evidence of progress. I am pleased to inform you that, for the current financial year, we are confident that we will deliver our £62 million savings requirement and come in below our maximum overspend target of no more than £45 million, agreed by the Scottish Government. That will be a significant achievement and is the result of a sustained focus by staff across the organisation and much-strengthened grip and control and financial discipline being consistently applied.

Although 2026-27 will be more challenging still, we have developed plans to deliver another £40 million-worth of savings and a maximum deficit position of £36 million. We are forging a path to get back into financial balance by 2029-30. Central to that is working in a more integrated way with our system partners on service and financial planning. There is a refreshed commitment to partnership working in the north-east to explore service redesign and transformation opportunities. That is critical to achieving financial sustainability.

Since being escalated to level 4 of the NHS Scotland support and intervention framework, we have welcomed the external diagnostic review that was commissioned by the Scottish Government. It informed our board-approved improvement plan, which sets out how we are responding to the recommendations from the review. The Scottish Government-chaired fortnightly assurance board is providing support and scrutiny in equal measure, which is key to driving improvements at the required pace.

In my first six months as chief executive, I have focused on stabilising the organisation, visible and compassionate leadership and putting people first. Key to that is our new culture programme, which focuses on staff health and wellbeing, leadership, and equality. Creating a continuous improvement culture, and becoming a learning organisation are also key aspects.

We in no way shy away from the challenges that we face or underestimate the distance that we still have to travel. However, there are very strong grounds for optimism. We are on track to deliver

our financial and savings plan for the year, and we continue to reduce our numbers of longest-wait patients. The improvements that we are making to culture, governance and leadership underpin everything that we do. We are working collaboratively with partners locally, regionally and nationally on our improvements, and we are investing in those vital relationships, recognising that they are key to our success. That includes maximising our engagement and leadership in the new subnational arrangements in the NHS in Scotland, which I believe present further opportunities to improve services and access for our communities and the people of Scotland.

What is most important is that the dedication of our 18,000 staff gives me confidence that NHS Grampian can continue to deliver sustainable improvement, better outcomes and high-quality care for the communities that we serve. As a board, we take accountability, openness and transparency very seriously, and we therefore welcome this committee's scrutiny and look forward to answering your questions.

The Convener: Thank you. I have to say that the reports that we have before us are pretty hard hitting. In the context of Ayrshire and Arran, the report says that the board

"is not in a financially sustainable position"

and refers to the financial challenges as "unprecedented". With regard to Grampian, the report says that the "cost base is unsustainable". Do you accept the findings, including those just mentioned, that are contained in the two reports? I will turn to Mr James first.

Gordon James: Yes, I accept the findings. The current cost base is unsustainable. However, as I outlined in my opening statement, we are taking multiple actions to address that. Certainly under my leadership, in the short time that I have been here, grip and control are some of the key areas that we are focusing on. We have taken a number of actions on performance management; we have been looking at things such as vacancy control panels; and we have realigned our budget processes for next year. We are taking a lot of short-term actions to improve the financial position. The Audit Scotland report said that it did not believe that we would achieve the deficit figure of £33.1 million. However, our month-end forecast position is an improved position on that. We are looking to outturn at £29.7 million, which is a £3 million improvement on what is noted in the Audit Scotland report.

The Convener: Thank you. We will drill into those financial positions in more detail.

I now turn to NHS Grampian. Do you accept the findings of the Audit Scotland report?

Laura Skaife-Knight: I do accept the findings of the Audit Scotland report. It is crystal clear that NHS Grampian will achieve financial sustainability in the medium term only through local system redesign or changes to funding levels. From a funding perspective, until recently, the NHS Scotland resource allocation committee share for NHS Grampian was falling. We welcome the £11.4 million that has been allocated to Grampian for 2026-27, which takes us closer to NRAC parity.

With regard to redesign of the local system, we have already taken some steps forward, and we will absolutely lean into that space as we go into the next year or so. We are stabilising and have arrested spend over the past year. The foundations are now in place to see the shift towards redesign and transformation that is needed. We are in the process of recruiting a director of strategy transformation and performance. We have well-established processes with our system partners, including our local authority partners and integration joint boards, to look at integrated financial and service planning. We have also stood up a north-east transformation group, which will be the delivery vehicle for system redesign in the north-east.

The Convener: Thank you. I will ask you more detailed questions later about some of the things that you just covered. First, Graham Simpson has some questions.

09:45

Graham Simpson (Central Scotland) (Reform): Thank you, convener, and welcome to the witnesses. As the convener said, the two reports are stark and the figures are concerning. NHS Grampian's 2024-25 overspend was the largest of any health board in Scotland; and Ayrshire and Arran had the highest amount of outstanding loans across the NHS in Scotland. I appreciate that things have possibly moved on.

Mr James, this month, NHS Ayrshire and Arran moved to level 4 of the support and intervention framework. How did that come about?

Gordon James: That came about via discussion with the director general and the chief exec of the NHS in Scotland. I should start by saying that I welcome escalation to level 4 of the framework. My colleague said that it has been positive in Grampian, and the additional support that Scottish Government colleagues will give us will be beneficial as part of our change journey. We know that we need to transform our services and how we deliver our services—acute services and then moving to community services. I really welcome that level of Scottish Government support in the transformation process.

Graham Simpson: However, one of the things that can get you to level 4 is failing to deliver on recovery actions that were agreed at level 3. Was that the case in Ayrshire and Arran?

Gordon James: I believe that Ayrshire and Arran has been at level 3 since 2017-18, and it is fair to say that one of the challenges, as you can see in Audit Scotland's "NHS in Scotland 2025: Finance and performance" report, has been the fact that we have the highest level of cumulative brokerage. Over the years, we have started to deliver on our savings. We are projected to deliver more this year than we did last year, so we have started to turn the corner. However, I recognise that, over previous years, the recurring nature of those savings has not been at a level that would see the board being de-escalated from level 3.

Graham Simpson: What savings are you anticipating delivering this year?

Gordon James: This year, we expect to deliver more than £28 million-worth of savings. Last year, we delivered £26.5 million-worth of savings, so there will be an additional £2 million of savings this year. That will be the highest level of savings achieved in a year that the board has seen.

Graham Simpson: Are those one-off or recurring savings?

Gordon James: There is a split between recurring and non-recurring savings. Of the £28.3 million, approximately £16 million is recurring, and the balance of just over £12 million is non-recurring. We fully recognise that, as we move forward, we need to shift the balance from non-recurring to recurring savings. That is why we have rebaselined our budget process this year. As you know, at the moment, we are going through our budget-setting process for next year.

Graham Simpson: You have both said that you are making significant savings. What are you doing differently that enables you to make those savings? Are there procedures that you are not doing? What has changed?

Gordon James: In Ayrshire and Arran, we are taking short-term and longer-term actions. We have started on our transformation journey, but, in the short term, we have had a real focus on our nursing agency spend. We are projecting that that will be half what it was two years ago, which demonstrates real grip and control. Where possible, we are recruiting nursing staff as they come out of university, so that has been a big focus. It is a similar situation with regard to medical locums. Crawford McGuffie could add to that, but, again, we are forecasting an almost 50 per cent reduction in medical locum costs as we go through this year. Those are examples of our areas of focus.

On longer-term transformation, as an example, we have moved all our elective orthopaedic procedures to a single site in Ayr, which is going to become a centre of excellence for elective care. That is an example of where the board has taken a difficult decision, and those are the sort of opportunities that we want to build on in the future. Tackling waiting lists and having a centre of excellence for elective care are examples of that process.

Graham Simpson: How are you managing to cut the use of locums by 50 per cent?

Dr Crawford McGuffie (NHS Ayrshire and Arran): The difficulty for the medical workforce is that, over the years, we have not been a top recruiter, and the medical workforce is not right-sized. That can drive you into high-cost alternatives in order to maintain the quality and safety of care. However, in 2017, taking a longer-term perspective, we built a programme called the best medical workforce. We went back to basics, we right-sized the workforce and we drove out the use of agency locums at all levels other than consultant level. This year, we are predicted to deliver another £1.25 million of savings through grip and control. I think that we will exceed that target by some £350,000 by the end of the year. That is about working efficiently, ensuring that all agency locums come through direct engagement and that we adhere to the guidance in the Health and Care (Staffing) (Scotland) Act 2019 in relation to the hourly rate of pay, and maximising our attempts to recruit a permanent workforce. We have had some recent success, which has brought the cost down.

Graham Simpson: If I may cut through that, are you employing more doctors and consultants?

Dr McGuffie: We are trying to move the dial from the use of high-cost, variable-quality agency locums to having permanent staff. At the same time, we have a programme of diversification of the medical workforce.

Graham Simpson: NHS Grampian, how have you made your savings?

Laura Skaife-Knight: We are on track to deliver £62 million of savings this year. That is after £50.5 million of savings last year. On how we have done that and what is different, I point first to the grip and control and discipline and rigour that we have put into the system, which includes holding colleagues to account to ensure that they live within their means as best they can, including budget holders across the organisation. We have also strengthened governance in the organisation, including our value and sustainability programme board and delivery group. We also have a new non-executive director-chaired financial recovery board, where we can do deep dives into areas that

are off-track in relation to the savings plan. With regard to savings, our workstream areas include medical pay and productivity; nursing and midwifery; procurement; pharmacy; estates and facilities; and our integration joint boards.

Perhaps what is at the heart of your question is whether any savings impact adversely on patient safety, quality and experience. To give you some reassurance, we have a quality impact assessment panel, chaired by our three clinical executive directors. The panel formally assesses savings plans for adverse impact on safety and quality, and, with that, staff experience and wellbeing. That is a formal process before any savings are approved, and there is line of sight through our board governance processes, including the clinical governance committee.

Graham Simpson: Okay, I hear all that, but I am not getting a picture of specifics. Can you give us any examples?

Laura Skaife-Knight: Yes, of course. Over the past three years, we have reduced nurse agency spend from £14 million to £4 million and medical locum spend from £23 million to £17 million.

Graham Simpson: As I asked Ayrshire and Arran, does that mean that you are employing more nurses and doctors?

Laura Skaife-Knight: Yes, it does. On workforce trends, over the past decade in particular, there has been an increase in the workforce across all territorial health boards. From a Grampian perspective, we have seen a slightly different trend in the timeline for the increase. Our workforce has increased in the five years following the pandemic. That includes some increases to nursing staff, in part because of the 2019 act but also because of the requirement to ensure patient safety. We have a number of non-standard bed areas open, including some escalation beds, and with that come additional staffing requirements. Similarly, we have increased the numbers of medical staff marginally but we are not out of sync with the rest of Scotland on that.

Graham Simpson: Are you not doing any procedures that you used to do? The Scottish Government is looking at that. I am not saying that there is anything wrong with that but, in a previous session, we were told that varicose veins were not being treated any more—or that was being considered—so is there anything like that that Grampian is not doing?

Laura Skaife-Knight: Board chief executives are doing some work, in which Gordon James and I have been involved with our medical directors, on procedures that are considered to be of limited clinical value. That is a pan-Scotland approach. It has been published and shared across boards within the past couple of months. All boards are in the process of ensuring that they have the right governance in place, led by our medical directors, so that we can ensure that there is a consistent approach across Scotland, which is hugely important.

Gordon James: Crawford McGuffie might want to add something to this, but there is a national protocol in place. It is published by the chief medical officer's office. All boards are putting structures in place to follow that national protocol.

Graham Simpson: Are there any procedures that you are not doing or are you not quite at that point yet?

Laura Skaife-Knight: We are not quite there yet. The protocol that Gordon James just described was shared with boards within the past four to eight weeks.

Graham Simpson: Okay. Caroline Lamb will appear before us, so perhaps I can ask her about that, as I have done before.

If you do not meet deficit targets, what happens? The Government said that there is to be no more brokerage. If there is no more brokerage, what happens?

Gordon James: As I said, Ayrshire and Arran's month 10 forecast position is £29.7 million. The Government has offered us deficit support funding of up to £25 million so, ultimately, there will be a gap of £4.7 million. Clearly, we need to work with auditors and Audit Scotland to understand how that is reflected in our accounts but my understanding is that it will be a loss in our accounts.

Graham Simpson: You will make a loss.

Gordon James: Yes, but we are still working through how that will look. We want to work with our auditors on that.

Graham Simpson: However, you will not be going to the Government to ask it to make up the shortfall.

Gordon James: In discussions with the Government so far, it has been clear that £25 million is the limit that has been set for NHS Ayrshire and Arran.

Graham Simpson: If you cannot hit that, what is the impact?

Gordon James: Ultimately, we will have a gap of £4.7 million.

Graham Simpson: How do you fill that gap?

Gordon James: We would show a loss in our accounts. That is my understanding.

Graham Simpson: Can you afford to do that?

Gordon James: The honest answer is no, we cannot. That is the reality of the situation that we are in. That is why all of us in the leadership team are collectively absolutely focused on improving the position as we go into the future. We are working with the Government on a three-year budget plan for the coming years. That is the process that we are going through.

Graham Simpson: I ask the same question of NHS Grampian.

Laura Skaife-Knight: Gordon James is right. The deficit support funding has replaced the brokerage arrangement for the NHS in Scotland. For NHS Grampian, that equates to £121 million over four years. As described earlier, we are on track to come in below our £45 million maximum deficit. That comes with a requirement to deliver £62 million-worth of savings, which we are on track to do. As we look to 2026-27, the maximum deficit position moves to £36 million and we will deliver a £40 million savings programme for the year ahead, which is well advanced.

I ask Alex Stephen to add to that.

Alex Stephen (NHS Grampian): In relation to Mr James's comments about the issue of the overspend in the financial accounts, we are working nationally to figure out what that presentation will look like. That is a work in progress that needs to be undertaken with auditors and the Scottish Government.

10:00

Graham Simpson: But you really only need to worry about NHS Grampian.

Alex Stephen: That is correct.

Graham Simpson: Yes, that is correct.

Just to be clear, Laura Skaife-Knight, the position that you have described is that you will meet the savings targets and that you will not be in the kind of deficit that Mr James is in at NHS Ayrshire and Arran.

Laura Skaife-Knight: Yes, as I said, we have well-developed plans for 2026-27 to meet the target of £40 million in savings. We have already identified savings that are in excess of £30 million, and we are as confident as we can be that we will achieve another £40 million. As I touched on a few moments ago, that means that, over the course of three years, we would be on track to achieve £150 million-worth of savings in the organisation.

Graham Simpson: Thank you.

Jamie Greene (West Scotland) (LD): Good morning. I will ask some other questions later in the evidence session, but I want to pick up on the point about brokerage and support funding. Will you describe the difference between the two? That is a question for anyone on the panel who feels comfortable answering it.

My understanding is that brokerage was essentially loans to the health board, and there was an expectation that, at some point, those loans would be paid back. You will have watched the previous evidence sessions, at which we heard that there is no expectation that you will ever be able to pay any of that money back. For example, in NHS Ayrshire and Arran, where will you find £130 million? Is it hidden away somewhere in your account?

What is the difference between what the Government was previously doing with the brokerage money to help you to break even versus what is happening with deficit support funding? I use that specific phrase because it was used earlier. What is deficit support funding? Is it a loan, or is it just an in-year cash injection with no expectation that you will need to pay it back?

Alex Stephen: Previously, the Scottish Government operated the brokerage system. If you overspent at the end of the financial year, you would apply to the Scottish Government to get brokerage. NHS Grampian applied for brokerage at the end of the previous financial year and was awarded £65 million. You are correct that that is a loan, and there will be an expectation to pay it back upon a return to financial balance. At the moment, we do not know what the terms of that repayment will be, but that expectation is still there.

The deficit support funding is slightly different, because it is agreed at the start of the financial year. NHS Grampian's support was agreed with a £45 million target. Helpfully, we have a target of £36 million for next year and £25 million for the year after that, so the deficit support will taper down. As I understand it, there is no requirement to repay the deficit support.

Jamie Greene: There is no requirement to pay the deficit support back, but it is agreed at the beginning of the year and it is predicated on you meeting your savings targets. Just to clarify, if you do not meet your savings targets, will you not get the deficit support?

Alex Stephen: To deliver the deficit support target, the savings targets will need to be met. Therefore, if you meet the savings targets and get to the deficit support target, you will receive the deficit support funding.

Jamie Greene: I ask the same question to the representatives from NHS Ayrshire and Arran.

Gordon James: My understanding is exactly the same as that of my colleague.

Jamie Greene: Thanks.

The Convener: I have some questions that are targeted at NHS Grampian. In the audit reports, we read a lot about loans and brokerage, outstanding loans and projected cumulative financial deficits, and there is a performance indicator at the end of each report. I might have thought that it was a good thing that NHS Grampian is way over budget if that were reflected in the performance outputs. It might be good if NHS Grampian was spending the extra money to improve the quality of services for the people of Grampian.

However, the appendix shows a pretty mixed picture. NHS Grampian does well on child and adolescent mental health services referrals and drug and alcohol treatment, for example, but on measures such as cancer treatment, the proportion of people who begin treatment within 62 days of referral is way down at 52 per cent. The board is down at 66 per cent on the target of waiting for less than four hours at accident and emergency and 58 per cent on the target of receiving a first out-patient appointment within 12 weeks. NHS Grampian is way off the standards and its performance is lower than the Scottish average.

Will you say a bit more about why you are not only in some financial difficulty but are not meeting the expected standards for patient care and NHS performance?

Laura Skaife-Knight: You are absolutely right. Our performance scorecard presents a very mixed picture at the moment. The organisation has had three very clear priorities over the past six to 12 months. Recognising the size of the challenge, we have narrowed our priorities. One of those is finance, which you have already touched on. The second is planned care and addressing our longest-wait patients. We have made significant progress, notwithstanding the challenges that we have faced in relation to the shutdown of our central decontamination unit over the past four months. We have made significant progress in reducing the number of people who have been waiting for 52 weeks for planned care.

Our third priority is unscheduled care, which is the area where we are struggling the most. We are far from where we would wish to be for any of our patients at the moment. We have received £22 million-worth of support from the Scottish Government to support delivery of the operational improvement plan priorities. That includes £9 million for unscheduled care, where we are a significant national outlier on performance, and £12 million to support the planned care improvements that I have described.

I am mindful that unscheduled care is the area where we are some distance from where we want to be. We have a whole-system improvement plan in place, and as I have just described, we have £9 million-worth of funding from the Scottish Government to support improvements.

There are three areas that I want to signal where we are absolutely focused on making the improvements that are necessary for our patients. I should say that it is quite deliberate that the improvement board that we have put in place for unscheduled care is chaired by our chief officer from the Aberdeenshire IJB. That means that it is owned by the entire system, which is entirely appropriate.

The first of the three areas that we are giving laser-like focus to, so that we can see as rapid an improvement as possible, is reducing avoidable admissions. That includes measures such as our expanded flow navigation centre and our initiative to address frailty at the front door. We have geriatricians in our emergency department, which reduces admissions into the hospital, and we have expanded our hospital at home model.

The second area, which is well within our gift to improve and where we are falling short at the moment, is improving discharge and flow through the hospital. There is a big focus on discharge to assess; instead of assessing patients in hospital, we are doing those multidisciplinary team assessments in people's homes, where we can assess their longer-term care requirements.

We must do better on our pre-noon discharge rates, which are at just 10 to 12 per cent at the moment. Class-leading hospitals are closer to 30 per cent on that, so we know that we have some way to go. We have opened two additional discharge lounges over the past eight weeks, and we are setting up an integrated discharge hub.

The third area that is absolutely key to us achieving the necessary step change is reconfiguring our acute bed base in the Aberdeen royal infirmary in particular. That means increasing our frailty beds and co-locating them so that we create a frailty floor at the ARI. That is work in progress.

I hope that the cumulative effect of the three dimensions that I have just described will begin a step change in our performance, which is much needed for our patients and local communities.

The Convener: Okay. I accept that, as the incoming chief executive, you have inherited some of the issues that you have described, but how did we get into a position—I suppose that someone has to be in this position—in which Grampian has the lowest bed base in Scotland?

Laura Skaife-Knight: Yes, you are absolutely right—there is no escaping that. We have the lowest acute bed base in Scotland. For extra context, I can tell the committee that Grampian has

1.4 beds per 1,000 population, compared with the Scottish national average of 2.4.

On our performance on unscheduled care, the removal of beds from the system over a period is certainly a factor. That has included acute beds—frailty beds, specifically—but there are also fewer community beds, fewer mental health beds and fewer care home beds. Over a decade—as you can imagine, we have got underneath the bonnet of the issue—there has been a significant reduction in beds across the system. That is an area in which we have tried to do redesign work to shift the balance of care, but it has perhaps not had the impact that we would have expected.

Although the situation as regards beds is part of the explanation of why we are where we are in terms of performance, there is also no shying away from the demographic changes. The number of over-65s has increased. In Aberdeenshire, between 2018 and 2028, the forecast is for a 40 per cent increase in the number of those who are aged over 75, which is significant. We are talking about not only higher acuity but a steep increase in multiple morbidities, which changes the type of demand and the type of care that we need to deliver. The system is out of balance, and we are trying to put the system back in balance through the changes that I have described.

The Convener: So that I am clear about that, can you tell us whether you see increasing bed capacity as part of the answer to the challenge of the changing demographics that you face?

Laura Skaife-Knight: I do not—not at this moment in time. First, we need to make changes to our internal efficiencies. I have described the work that we need to do to improve flow through and out of our hospitals. Good practice day in and day out will make the organisation more efficient and will improve flow through and out of the hospital.

The work that I have described to reconfigure our current acute bed base and increase frailty capacity is the next step forward. By doing those two things, along with the wider system changes, I would like to see where we can get to. If there is still a gap and performance is not where it needs to be, we can have a discussion about what additional beds we might need at that stage.

The Convener: When Healthcare Improvement Scotland carried out an inspection of Dr Gray's hospital, it had some concerns and made a number of recommendations. Could you tell us what you are doing to address the issues that were identified by Healthcare Improvement Scotland?

Laura Skaife-Knight: Of course I can. First, I want to say that Dr Gray's hospital is an important anchor institution in Moray that provides critical clinical services. For those who do not know the context, Dr Gray's is the smallest district general hospital in Scotland, and it faces similar challenges to other rural and remote hospitals, especially when it comes to workforce and recruitment.

You are absolutely right. In February last year, Healthcare Improvement Scotland and NHS Education for Scotland wrote to us to raise concerns about various aspects of leadership, governance and workforce, including in relation to recruitment, at Dr Gray's hospital. Since recognising the seriousness of those concerns, we have done a number of things, including some focused work on integrated acute pathways between Aberdeen royal infirmary and Dr Gray's hospital. Over the past 12 months, we have focused initially on three clinical specialties—orthopaedics, cardiology and endoscopy—to ensure that teams can work more closely together, and that we have single waiting lists, single vetting arrangements and more resilience in those services.

We now have a single leadership arrangement in place across our four acute sites—Dr Gray's hospital, Aberdeen royal infirmary, the maternity unit and the children's hospital—which involves our new chief officer for acute, who came into post in May of last year. We also have single arrangements for acute governance that span those four acute sites.

We have a refreshed focus on our relationships with Healthcare Improvement Scotland and NHS Education for Scotland. In fact, our board chair and I look forward to welcoming the chair and chief executive of those organisations to NHS Grampian on 20 March, when we will share our improvements to date.

Our clinical governance committee plays a pivotal role in overseeing the progress that is being made on the concerns that were raised by HIS and NES. Tomorrow afternoon, our progress at Dr Gray's hospital is on the agenda at our assurance board meeting with Scottish Government colleagues.

The Convener: You mentioned Alison Evison. She has been sitting beside you very quietly, but you might want to bring her in on what will be—for now, anyway—my final question.

One issue that stood out in the report that concerned us was the fact that one of the financial challenges that the health board has had is having to find money for the significant overspends by the integration joint boards. According to the breakdown that appears in the report, the financial gap that had to be plugged by the health board in relation to the IJBs amounted to £6.4 million for Aberdeen city, but, in Aberdeenshire, the gap that

had to be plugged was £13 million. Could you explain why that is and how it came to pass?

10:15

Laura Skaife-Knight: I will get us started. If we look at the deficit position for the IJBs and go back to the audit report that relates to 2024-25, we can see that the IJB deficits increased from £37 million to £49 million between 2023-24 and 2024-25. In 2024-25, there was also a deficit support contribution of £22.4 million from NHS Grampian, which was an increase from £7 million the previous year.

The KPMG diagnostic report, which was one of the many aspects of support that the organisation received, was published in October of last year. One of the many helpful recommendations from that review was a suggestion that there was more work to do on financial reporting in the organisation and with regard to oversight of IJB financial reporting and scrutiny of IJB financial performance.

We have made significant progress in that area. I mentioned the finance recovery board. Our IJB colleagues have been in attendance at those meetings, at which they do deep dives to describe their progress. They also regularly attend the assurance board, which is chaired by the Scottish Government, to provide updates.

I am pleased to say that the overspends for IJBs and NHS Grampian are reducing, and we are working in a much more integrated way with our system partners, including IJBs, as we look to plan for 2026-27.

We have oversight of all the savings that are planned across the system so that we do not end up making a decision in one part of the system that has an unintended consequence for another part of the system. There is still more to do, but we are making positive steps forward.

Alison Evison (NHS Grampian): Historically, in the north-east, there have been good relationships between the three IJBs, the councils and NHS Grampian. That was a feature of the 2015-16 period. However, that situation led to people working independently—totally separately—and not coming together in the way that we do now, which involves looking at impacts across the system.

All the issues that we have described—the demographic changes, the pressure on beds and the increased acuity of older people who need more care at home—have had a huge impact on the IJBs. They are also trying to do their work in supporting adults with disabilities and children with disabilities. It has come to the point where we need to do something.

Now, we are moving from a position in which we get on with and have conversations with one another—historically, Grampian was known for that—to a position in which we need to sit down together and work out the impact of each budget decision on other areas of the system. We need to discuss issues such as where the most sensible place is to have a programme of care, where it is most sensible for beds to be and how we can put patients first. We need to think about the pathway of the patient through the system and what the patient experiences as they go through it.

In doing that, we are also supporting our staff to deliver the work that they need to, which means that they can do what they came into their profession to do and can achieve the outcomes that they want to achieve.

Currently, we are working together. The north-east transformation group has been established, on which we can come together and work with the director of finance, Alex Stephen, to consider the situation that we are in and the pressures that we are facing. That involves asking how we can understand one another better and move forward. That is the journey that we have been on with the IJBs. It is good to be working together and moving forward.

The deficits appeared during a time when we were not coming together as we are now. That did not come through on the budget pages as we would have expected it to, but we are now working together more regularly and are integrating our planning with the IJBs to a far greater extent.

The Convener: This will probably not be for us, but I am sure that future public audit committees will be interested in seeing whether progress is made.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to explore issues relating to governance and leadership that have been highlighted in the reports.

I will start with NHS Ayrshire and Arran. In relation to service reform, the auditors recommended that more focused and effective leadership was needed to drive change and to promote a culture of challenge. There was a discussion about leadership capacity, which was constrained by a vacancy in the acute director role. I understand that that role has now been filled. When was it filled?

Gordon James: I do not know the exact date.

Lesley Bowie (NHS Ayrshire and Arran): It was in August 2024.

Colin Beattie: The report states:

"To help with the board's leadership capacity, the Chief Executive worked with the Scottish Government to secure

external support (Viridian Associates) from August 2024".

Is that company still working with you?

Gordon James: It is working with us until the end of the current financial year—until 31 March this year.

Colin Beattie: What exactly has it been doing? I assume that it is fairly costly.

Gordon James: It has brought a skill set and expertise predominantly in relation to data analytics and savings opportunities. It has helped to formulate our savings plan for the current year and our savings opportunities for next year. That has been a key focus.

The company provided specific expertise relating to workforce planning, job planning, safe staffing legislation—which Laura Skaife-Knight mentioned—and how we can ensure that our workforce is the right size. It has also been looking at how we can maximise the productivity of our theatre suites. Its work has been targeted in a number of key areas in which we can show positive improvement.

In relation to the overarching elements that are noted in the report, as I said in my opening statement, there are seven areas of key focus. We have engaged with clinical and operational colleagues—for example, I held a full event with more than 100 clinical and operational leaders across the service. In his role as executive medical director, Crawford McGuffie is focusing on clinically led service change.

I believe that, within our organisation, there is an absolute appetite to change our services. We are working on our delivering caring for Ayrshire programme, which is all about providing the right care in the right place. We know that, sometimes, the right place for care is not our community hospitals, so, when it is clinically appropriate to do so, we need to move care from our community hospitals to primary care or community care.

We have established a pan-Ayrshire transformation board, which includes me and the chief executives of North Ayrshire Council, East Ayrshire Council and South Ayrshire Council. We have met once, and we are meeting again tomorrow. We are agreeing our terms of reference, and we will have five areas of focus.

The first area relates to safe and affordable hospital care. We have a specific pan-Ayrshire focus on adults with incapacity, as is noted in the delayed discharge report that the committee received last week. We are looking at community-led and shared services, where possible. Another key focus is how we streamline our digital systems across health and social care. Our final area of focus is staff and public communication.

Colin Beattie: To go back to what I originally said about the constraints on leadership capacity, the constraints seemed to be linked to a vacancy in the acute director role, but that cannot have been the sole reason for a lack of leadership capacity, otherwise you would not have had consultants working with you for such an extended period.

Gordon James: As has been said, we have now filled the role of director of acute services—

Colin Beattie: That, in itself, will not cure all the leadership deficiencies.

Gordon James: No. We have also brought in a temporary turnaround director, who is supporting the change programme—the grip and control element as well as longer-term transformational change. As Crawford McGuffie said, it is really important that we take a clinical approach to pathway and service change, because the changes need to be right for our patients and our staff. We are using our clinical structures to make those changes.

Pre-pandemic, we had our delivering caring for Ayrshire programme, which set out our ambitions. During the pandemic, given the situation that the country was in, that unfortunately stalled. However, we are now into the delivery of that programme. In acute care, as I mentioned earlier, we are looking at creating a centre of excellence for elective surgery to tackle long waits in a high-quality, highly productive way. That is a core foundation of our programme.

Another core foundation is looking at how we construct our emergency care across our whole system, including primary, community and acute care. NHS Ayrshire and Arran established the first flow navigation centre in Scotland, which has 12 pathways and prevents about 11,000 patients a month from coming into our hospital settings. Those patients are appropriately dealt with and seen in community settings. We want to expand that model and look at building virtual capacity on a subnational west basis. That will involve considering where we can expand virtual wards. The Government has a commitment to the further expansion of hospital at home services, which is another area that we are focusing on.

Colin Beattie: Still on leadership, I note that Viridian Associates will leave you at the end of the current financial year. From what you have said, it is obvious that the company has been instrumental in moving you forward in many different ways and providing skills that you did not have. Are you satisfied that, when it departs, you will have the leadership skills within NHS Ayrshire and Arran to carry things forward and keep the momentum going? Do you have the capacity?

Gordon James: I believe that we have the capacity because, over the past months, we have taken the decision to establish our own in-house programme management office. We did not have that before, and Viridian Associates provided some of that element. The programme management office will look at both our in-year savings plans and our longer-term transformation. We are building that capacity in-house. We are in a transition phase just now. We already have some people in post and we will transition so that we are self-sufficient.

In welcoming the escalation to level 4 on the support and intervention framework, we will work with the Scottish Government to understand any other opportunities around which it can support us. It has already been doing that, as has been done in Grampian. The finance delivery unit that was set up in the Scottish Government's health and social care finance directorate has been doing a lot of work with us on transformation. For example, we are looking at our medicines management and benchmarking the use of medicines across the system, and we are looking at our workforce and comparative indicators across the system. The report included comments on reporting through our committees, and we have enhanced our financial reporting to make it more succinct and clear. We are also learning from colleagues in NHS Lanarkshire. Some of that support has started, and it will be enhanced as we move into the next year.

Colin Beattie: Are you satisfied that the board is now receiving adequate information to be able to respond to and properly scrutinise the challenges that it is facing and to hold the senior leaders in the team to account?

Lesley Bowie: Yes. We did a self-assessment and looked at the skills that we have on the board. In recent years, we have shaped the board to be finance, audit and risk focused. Ten of our 14 members have financial skills. Four qualified accountants sit on the board, and one of them chairs our performance management committee, which looks at not only service but financial performance. Another two of those accountants also sit on that committee.

One of our improvement actions as a result of the assessment was to introduce what we are calling PGC light, which is an additional performance governance committee that looks only at our financial management report. Every month, the non-executive members, in particular, get an extra opportunity to scrutinise our financial reports in detail.

In addition, we have had several finance workshops to look in detail at savings and what has been brought forward. Those things have helped to strengthen our governance. We certainly have a broad range of skills, experience and perspectives on the board.

10:30

In the next recruitment cycle, I am looking to bring in more programme management experience. I am looking for someone to come on to the board with a proven track record in programme management and the delivery of major transformation projects so that we can bring the right level of scrutiny and challenge as we move forward in our project management office.

Colin Beattie: One of the big deficiencies that we have seen in previous such situations is the lack of challenge from board members. Are you satisfied that there is adequate challenge from board members? Do you have any examples of that?

Lesley Bowie: I am satisfied that we have adequate challenge, particularly in the area of finance. We closely align all our committees and governance practices against the blueprint for good governance. As I said, we have a strong and diverse set of non-executives in particular, and they have the skills. Gordon can provide us with an example of challenge.

Gordon James: A fair example from my short time in post—this was probably in the first or second month after I joined—involves risk assessment and deliverability of savings. That certainly came from the non-executives, who were focused on having almost a red, amber, green status in relation to the achievement of savings plans. That came in and meant that, as part of our financial forecasting process, we changed the presentation to non-executives via our performance governance committee and then into the board and we now produce a best-case, most likely and worst-case position. We now do sensitivity analysis on our forecast position. That is a specific example of something that did not happen before and which came from the non-executives.

At a board workshop in October, we went back to 2012 and did a full analysis of why we are where we are. The aim was to be very open with the board in relation to understanding where we are. For example, we set out where we have moved to on medicine costs and the workforce profile and where we are on our activity measures on in-patients, day cases, out-patients, and so on. The aim was to ensure that, as we go through this financial year and into the next financial year with that clear base, the board absolutely understands where we are. That was one of the elements that was noted in the Audit Scotland report, and that work was undertaken last October.

Colin Beattie: I have one last question for Ayrshire and Arran. What progress have you made on getting a permanent chief executive?

Lesley Bowie: In agreement with the Scottish Government, we have decided to go out to substantive recruitment probably around the April timeframe. We have a contract arrangement for Gordon James to remain with us until the end of October and our plan is that, by that time, we will have the substantive post filled.

Colin Beattie: Thank you. Still on governance and leadership, there has been a pretty high turnover of leadership posts in Grampian—the chief executive, the medical director and the chief officers in all three IJBs—and there is still upcoming change. How are you managing that? Continuity in post is frequently important, but you have had that huge change. Are we to view that positively or negatively?

Laura Skaife-Knight: You are absolutely right that there has been a huge churn and change at the top of the organisation, including chief executives. For me, leadership stability is absolutely critical to stabilising the whole organisation, and we have made real and important progress on that. I came in as substantive chief executive in September of last year, and we have a substantive director of public health. As I touched on earlier, we have the chief officer for acute care, who was recruited in May last year. We have a substantive medical director, who has been in post for just over a year now, and I am recruiting a director of strategy, transformation and performance. As of autumn of last year, all of our IJB chief officers are in substantive posts.

We are making some really good progress on stabilising the executive team in particular and ensuring that that team moves forward. An executive team development programme is starting in the next couple of weeks.

We had some additional support through escalation funding last year, which we welcomed, and we will still have some of that funding moving into 2026-27. To coincide with my arrival, I appointed an interim director of improvement. That post will be replaced by the substantive director of strategy, transformation and performance role that I just mentioned. Also, through that escalation funding, which is £500,000 for 2026-27, I have taken the decision, with support from the Scottish Government and the assurance board, to bring in a site director for the Aberdeen royal infirmary and a deputy medical director to support improvements to unscheduled care.

Colin Beattie: You heard my earlier questions about the Ayrshire and Arran board's skills, experience and willingness to challenge. Are you satisfied that you have the right skills and experience on your board and that you have people who are prepared to challenge?

Alison Evison: Yes. There has been a real focus over the past three or so years on the board's skills. We have done a skills matrix of the board members to assess the skills that we have and focus on the skills that we need. Our recent recruitment has responded to that, so we have a board that has the skills required to move forward and support NHS Grampian and the people across Grampian. That is a key part of the work.

The work that the board does is fundamental. We are also on a journey through the improvement board governance. We have done our self-assessment through the blueprint for good governance but, from that, we have developed our own assessment of what we need to go forward.

Part of that relates to how we analyse risk. Mitigations against risk was a huge piece of work that extended over a whole year to understand where we are on managing risk. All our board reports are now up front about risk and the mitigations of risk. The non-execs on the board have been particularly focused on assessing that and considering what it means for the board.

To pick up on a question that you asked previously, the non-execs on the board are making a huge difference through the questions that they ask and the outcomes that they get. A key aspect of that relates to financial savings. You have heard about the huge amount of financial savings that NHS Grampian has been making over a number of years. That all comes with considerations of quality and safety. The board members are the ones who picked up on the need for an integrated quality assessment process to ensure that we understand the impact of all the savings that are being made and that we move in the right direction. That covers your question about the scrutiny that board members have given and the questions that they have asked.

There has also been a lot of consideration by board members about the quality of information that is coming to the board and whether the board is getting the right information to do the scrutiny that it needs to do. The conclusion has been that board members might not be seeing the information in the right form and that the information needs to be in a different form. Perhaps we do not need to look at RAG statuses, for example, but we need to understand trends over a period of time. If we start to have a crow's foot data element in our board papers, we can think about trajectories, the levels of tolerance within the crow's foot data and where we are on the overall targets that we are trying to achieve. The scrutiny around the thinking about trajectories

moving forward rather than being focused on the one-off has supported the work that we are doing to understand things as we go forward.

The focus of my work in encouraging the board members has been to think about the triangulation of different sources of evidence and information coming to the board. We have a quantity of data coming to us in board reports, but what else do we need to have so that we can understand and get under the skin of what is happening in NHS Grampian at the moment? The visibility of board members, who have been going on visits to get to know staff, getting to know the organisation and seeing things as they are happening across the organisation, has also been an important part of our work.

We also have a programme of visits that are linked to the committee work of the board, and anyone who goes on a visit reports back on what they have seen, what they have learned and what the outcomes of that are to support that work on triangulation. We are also listening to the staff voice and making sure that it is part of what we are doing. In particular, at board meetings, I have pushed up the agenda the reports from the area partnership forum and the area clinical forum, so that we have insights and get reports back. We also invite the people who lead those organisations and groups within NHS Grampian to come and talk to us and highlight any issues that come through from staff.

That sense of being able to triangulate evidence and to scrutinise in detail the information that is coming to our board—together with looking at the skills that we have on the board and appreciating risk and what that means for us—is helping us to move forward. It is a journey that we are on and it is one that we are embracing and continuing to work on.

Gordon James: I will just add something from the NHS Ayrshire and Arran perspective. Alison Evison talked about the importance of the staff voice and the patient voice. At the start of our board meetings, we always have a staff or patient story. An example is the positive story about the use of robotics within NHS Ayrshire and Arran and the outcomes for patients in relation to same-day operation and same-day home. We also have some challenging patient stories that come to the board, which challenge the non-execs and the execs. I reiterate that we put staff and patients at the heart and at the top of our board meetings.

Lesley Bowie: Non-execs asked for improvement stories to come to the board, not just good-news stories. We want to share, in public, the learning stories for us as an organisation. It is important that we do not just look at the good news, but look at where we need to improve.

The Convener: I am conscious that we are three minutes away from our allocated time slot expiring and we still have two members of the committee who want to ask questions, so I ask our witnesses to try to keep their answers succinct—I know that the questions will be succinct, of course.

I invite the deputy convener, Jamie Greene, to put some of those questions to you.

Jamie Greene: Thank you, convener. I will try my best.

At our most recent meeting with the Auditor General, we talked about the long-term financial sustainability of your health boards. Unsurprisingly, I will focus on NHS Ayrshire and Arran, because of my regional interest and nearly 10 years' experience of working with patients from that area.

There is clearly an issue with NHS Ayrshire and Arran's financial sustainability. When I asked the Auditor General about that, he said that we are in a

"recurring pattern or cycle"

of brokerage and funding from the Government, which is not

"a sustainable position with regard to service delivery or quality for the patients of NHS Ayrshire and Arran."—[*Official Report, Public Audit Committee*, 26 November 2025; c 5.]

I want to focus on quality. What effect does that financial unsustainability have on the quality of service for patients?

Gordon James: I will start, and Crawford McGuffie can give a clinical point of view.

As I have just said, patient safety and service quality are paramount at the board. We have a healthcare governance committee, we get regular updates from an executive and non-executive point of view, we use trending and funnel plots and so on, and we benchmark ourselves against other boards across Scotland. Quality is absolutely at the heart of what we do and will be front and centre of any transformation. It is exactly at the centre of the nine priorities that I have set out for the organisation.

We are in the financial position that you set out. As you know, the Scottish Government has set trajectories for patients waiting in planned care and no patients should be waiting for longer than 52 weeks. We have seen significant progress on that, and I thank all the team in NHS Ayrshire and Arran for that. The number of patients waiting longer than 52 weeks has radically reduced. That is an example of where we are modernising our processes, are ensuring grip and control and are being more productive with the elements that we have. We have been supported by some additional

Government funding for planned care, and we are forecasting that, by the end of March, we will have zero patients—or thereabouts—waiting longer than 52 weeks in 19 out of 24 specialties for out-patients and 12 out of 16 specialties for in-patient day cases.

That is an example of how, when we are absolutely focused and we start to pivot the system and implement changes, we can deliver on our financial savings. As I said, we are going to be ahead of our budget target, but we will also deliver on service quality.

10:45

Dr McGuffie: We use a multilayered approach. We would probably start with the hospital mortality ratio. We use our committees to ensure quality and we are visible as a leadership team. We walk around for two hours every week. We allow the non-executives access to the wards and services through our extensive quality and safety walk-around programme. That goes back to Mr Beattie's point as it involves showing the shop floor to the board. We are reassured that we are making some progress on planned care activity, as my colleague has said.

Unscheduled care is difficult just now, and there is no shying away from that. We are faced with an overcrowded system that is running at high occupancy. We have been trying to reform the system since 2006-07, when we did our service review. That was about being more bespoke in terms of what is done in which hospitals. The 2017 PwC report said that we would not be financially viable beyond 2022 unless we reformed, and the delivering caring for Ayrshire programme was born under that auspice. The committee will be familiar with the idea of delivering care closer to home and care wrapping around the family, the community and the community services. That is a much cheaper model, but it is a higher-quality model.

The PwC report—which was produced before the pandemic—predicted that, by 2022, we would not be financially sustainable and that we would have a deficit of £130 million. If you leave aside the effect of the pandemic, that was almost on point, so we need to get on with the reform. As you well know, socioeconomic inequity drives poor health outcomes, and they drive activity. We are in that cycle just now. We want to reform over the next three years, and the three-year clinical strategy—which, in the interests of time, we will provide to the committee in writing—sits alongside the three to five-year path to financial balance.

We also have the backing of the clinical community. In 2006-07, that community was perhaps not so strongly in favour of reform, but we have that backing now. This session is about auditing the past, but we are looking forward to greater financial stability and a new paradigm for providing services.

Jamie Greene: Thank you. I apologise, but I am going to need slightly shorter answers. I know that you want to give comprehensive answers and I appreciate them, but I want to cover as much ground as I can while you are here.

On the unplanned care targets, the information that I have is from March 2025, so it is nearly a year out of date. We know that the targets are high, particularly on A and E and out-patient care, but can you give me an update? Do you have statistics with you today? What are the latest statistics? There are three specific metrics that I would like data for—your A and E four-hour standard, your 12-week out-patient standard and your 62-day cancer standard. The convener mentioned the latter in his questions. The statistics that I have from last year are really poor.

Gordon James: I have some of the numbers with me. This is local management information. I am conscious that it is not Public Health Scotland published information, so it is still subject to statistics governance and everything that goes with that and is therefore subject to change.

Our local management data shows that the figure for the four-hour target at the end of January, which covers the winter period, was 60.6 per cent. Our first 12-week out-patient figure was 54 per cent. However, as I have mentioned, we put a lot of focus on the target that relates to patients waiting for longer than 52 weeks, and there has been significant improvement in meeting that target. I am happy to supply more information on that as required—I will not repeat what I said previously.

Sorry, what was the last target that you referred to?

Jamie Greene: The 62-day wait for cancer treatment.

Gordon James: As you will know, there are two targets for cancer, and I will give you information on both of them. The latest data for cancer that was published by PHS was for September, which showed us at 79.7 per cent—so, 80 per cent—for the 62-day target, while we were at 98.6 per cent for the 31-day target.

Our management information is that, in November and December, we were at 100 per cent for the 31-day target. I do not have the exact number for the 62-day target in December, but it was above 80 per cent. We have made significant progress in meeting our cancer targets over the past year. The January number dipped to the low 70s, but our expectation is that the figure will further improve as we move into the year.

We have done a lot of work redesigning the clinical pathway for our cancer process. That includes looking at when we get tests, how we align with MRI scans, and so on. I believe that we are making significant positive progress on our cancer waits, but I recognise that we need to do more on the four-hour target.

Jamie Greene: Last year, the figure for the four-hour target was 67 per cent, but it was 60 per cent this January. Last year, the figure for the 12-week out-patient target was 61 per cent, but that has now dropped significantly to 54 per cent. That is basically half of the 95 per cent target. You are not a couple of percentage points away; you are way off.

I am not trying to trick you or catch you out, but we are talking about a health board that has faced serious financial difficulties year on year for nearly a decade, and it is still not meeting several major targets. My case load is chock-a-block with people who are at their wits' end waiting for treatment. It is difficult to see what the end of the tunnel will look like.

For many of the reasons that you have already given regarding the demographics and the deprivation levels in the areas that you cover—particularly in North Ayrshire and parts of the two other Ayrshires—is the problem that, without more cash and people, you will just never be able to hit the targets? Is it not the case that you are trying to balance the books for your audit rather than asking for more money from the Government to deliver the services that you need to deliver?

Gordon James: I do not think that that is the case. In December, the Scottish average for the 12-week target was 60 per cent.

Jamie Greene: That is just as bad.

Gordon James: We are in the middle of the pack when it comes to the Scottish average. We need to improve on that, and we are committed to doing so.

As I have said, we have made significant progress on long waits—in fact, we are ahead of the Scottish trajectory. Our cancer performance is also improving. It is above where we want it to be for the 31-day target—it is at 100 per cent—but it is not where we want it to be for the 62-day target. However, it is on a trajectory that was improving throughout the last six months of the previous year.

The new subnational planning and delivery approach will bring further opportunities for us in the west of Scotland. The question is, if we are planning and delivering on a subnational basis, how can we use the collective skills and expertise of the whole system to improve waiting times, specifically for patients in elective care? There is the example of NHS Golden Jubilee, which we use as a national treatment centre. Patients from Ayrshire and Arran travel there, as they also do from other boards.

We are focusing on some areas in the subnational planning and delivery approach. I chair one of them, which is considering an orthopaedic plan for the west of Scotland. That will link into the orthopaedic plan for the east of Scotland.

That will bring a new opportunity, and the key focus will be to get back to the 12-week treatment time guarantee over a period of several years.

Jamie Greene: That sounds very positive—those are helpful updates.

I will rephrase my earlier question. You will talk to Ms Lamb, the director general for health, and to the Government. The whole conversation this morning has been about saving money, which, essentially, means making cuts in some areas. You have a unique demographic and face a rise in demand—issues that are completely outside your control. Your service is having to cover an area of deep deprivation that has some of the lowest life expectancies and healthy life expectancies in the country and is in the top three deciles for poverty in Scotland. Given that situation, for which I have a lot of sympathy, why are the chair and the chief executive of NHS Ayrshire and Arran not saying to the Government that if it wants you to deliver good quality, cost-effective, fast public health services to our communities, you need more money? I have not heard that once in today's conversation. If it were me, I would be knocking at the Government's door, saying, "If you want us to meet your targets, we need more cash."

Gordon James: There is the issue of how funding is allocated across Scotland—as you will be aware, it is done using the NRAC formula. Ayrshire's population is reducing, which is an issue because NRAC's key denominator is population based. Adjustments are then made for factors such as deprivation—currently, NHS Ayrshire and Arran is sitting at 0.6 per cent below our NRAC share in that regard, so we get an element of adjustment for that.

Another issue that we face, along with the ones that you have outlined, is the fact that our board covers islands—as you know, delivering healthcare in islands is more expensive than it is on the mainland.

The question of the funding model that is used to allocate resources is for the Government, not us. However, we are working with the Government and we welcome the support that it has given us through deficit support funding and sustainability funding.

As well as having additional funds, there are things that we can do in our own system, in the west of Scotland and on a national basis to improve our outturn.

Jamie Greene: Audit Scotland reflected on that: it noted that the issue is not only about cost cutting and making efficiencies. It believes that the board's reform of services has been slow.

We are tight for time, but I want to briefly cover the issue of staffing. I am aware that there is a higher than average workforce sickness rate. I have also been working closely with local union members who have done many surveys of the staffing; the results of the surveys have been disappointing and worrying. In particular, many of those who were surveyed—I believe that the figure was 78 per cent, which is substantially high—believe that they are so short-staffed that they are putting the safety of their patients at risk. Many more reported discomfort about raising concerns with leadership and management, a high percentage said that they did not receive appropriate or timeous feedback to their concerns and 90 per cent said that safe staffing legislation had made absolutely no difference to their day-to-day level of care. Those are worrying pieces of feedback. What are you doing to improve staff morale, patient and staff safety and—given that the sickness rate is so high—the welfare of staff?

Gordon James: NHS Ayrshire and Arran's sickness rate is not where we want it to be. That said, in Scotland, we are in third or fourth place in terms of having the best sickness rate. Looking across other boards for a benchmarking comparison, we are in the upper quartile for sickness absence. I take that as an element of positivity. However, let me be clear that we still need to improve.

On what we are doing, it starts with me and with visible leadership. From my first week, I was out and about, and I have been across multiple services. I go on weekly walks with the chair, the medical director and the nurse director. We are open and transparent with staff. Culture and values are really important to me; at meetings with all members of staff, I actively say, "If you have an issue, please raise it"—they can always come to my door if they do not go through their line manager. I am trying to convey to staff that it is a safe working place and that they have the ability to raise concerns. I believe that we can do that in NHS Ayrshire and Arran.

11:00

We monitor ourselves against the safe staffing standards. Our latest report is on reasonable assurance, which is one of the categories that is included in the standards. Such reports go through our board governance structure—through healthcare governance—and then go to the board, so they are actively monitored.

Last week, our management team had a paper on staff wellbeing. We are looking at further options on staff wellbeing resource, because staff wellbeing is a potential invest-to-save opportunity that can reduce absence and bring staff back to work. Over the past few years, we have invested significantly in staff wellbeing. At our main sites, we have created three staff wellbeing hubs, which are calm spaces where staff can go, and they also have opportunities to access support via the organisational development, staff support and safe care services that we have in place.

Dr McGuffie: The Unison survey figures that I saw showed that 80 per cent felt that we were not doing enough to align processes with the healthcare staffing legislation. Thirty-two per cent said that they had some concerns about staffing levels putting patient safety at risk, and a significant minority said that they felt that they were not being heard.

To add to what the chief executive said, I consider our wellbeing services to be the best in class in Scotland. In the pandemic, they were built up on a model of peer support and team debriefing. We can give you further information on that, if that helps. We take all that stuff through our really vibrant area partnership forum.

It would be wrong to leave without saying that the current unscheduled care system is overloaded. It is a very difficult place for staff to work, and we are targeting some of the resource to that area. Activity costs money and sometimes has an impact on quality. We have amazing teams, but we see the issues that they face daily when we are out and about. On Thursday mornings, I work at A and E, so I see the issues then—that is a useful lightning rod, from my point of view.

The situation is very difficult. The whole system is overheated just now: more than 150 people are fit to leave the hospital, but we do not have any funding in social care to ensure that that can happen. It is very difficult, and it would be wrong to leave this committee without updating you on that.

Jamie Greene: I appreciate your frankness on that. We have rehearsed the issues around delayed discharge and the knock-on effect that it has on your ability to offer services at the front end. We absolutely sympathise with you on those issues and raise them with the Government.

My final question is technical but brief: how many general practitioner practices does the board still fund through sustainability payments? I am aware that there have been issues with primary care and GP practices closing, looking to hand

back their licences or converting to 2C practices. When private operators come out of the system, that comes at a cost to you.

Gordon James: I do not have the answer, but I am happy to write to the committee and give you an update.

The Convener: Joe FitzPatrick has waited very patiently to put his questions to the witnesses, so I will turn to him.

Joe FitzPatrick (Dundee City West) (SNP): Some areas of questioning have been covered, and I might focus more on NHS Grampian, given that Jamie Greene focused more on NHS Ayrshire and Arran. For transparency, I note that a number of my family members work on the front line in NHS Grampian. I do not think that anything is declarable, but I want to be transparent about that.

On 25 May, NHS Grampian went up to risk level 4 on the NHS Scotland support and intervention framework. The KPMG work that the Government initiated was one of the first things that resulted from that. The turnaround on it, which was over a couple of months, was quite rapid. Laura, that was published just before you came into post as chief executive, so it was perhaps a useful document to start with. It would be good to hear your experience of that and how you are working through the recommendations.

Laura Skaife-Knight: We welcomed the KPMG external diagnostic report. I will make a few points on what we have got out of it and what it was all about.

First, it explored the causes of the deficit. The board had done a lot of work on that already, but the report gave us an even deeper understanding of it. Secondly, it looked at the potential for wider savings opportunities. Again, we had already done a lot of work on developing our savings programme, but the report put more options on the table for us to work through. We have now done that and either included them in the savings programme or excluded them; we have been very clear as to why we have chosen to do so. The third strand was around leadership and governance and opportunities to further strengthen those domains.

I will share a few learning points that we have picked up and taken forward. I will then describe the improvement plan. One of the outputs of the whole diagnostic review was the development of a single improvement plan, which came to our board in December. That is overseen by our board in a formal way in public—as the committee would imagine—as well as by the Scottish Government-chaired assurance board.

The point at the top of the list of learning points might sound really basic and simple. However, the external review report asked us to declutter and strip back the landscape, instead of having hundreds of priorities. That is why we have three top organisational priorities, which we have not deviated from. The forensic focus on those priorities has served us well.

Joe FitzPatrick: Will you share those priorities for the record?

Laura Skaife-Knight: My apologies. Of course. They are value and sustainability—that is, finance; planned care, or reducing the longest waits; and unscheduled care. As described earlier, in two of those three domains—planned care and finance—we can evidence major progress, which is because we have stripped it back and held our nerve as an organisation in keeping things simple.

Earlier, I touched a little on the second learning point that we have taken from the diagnostic review, which is on strengthened financial reporting throughout the organisation, including at board level. We have also strengthened IJB reporting and visibility of financial results, as well as the scrutiny of IJB finances, including through my personal involvement in how I hold the chief officers to account. We do that in formal ways.

Another point is about identifying opportunities to further improve operational governance in the organisation. I have just taken a paper through my exec team and onwards to the assurance board. Work is under way on that.

Fundamentally, the review reinforced to me that we were already doing many of the right things. It therefore gave us confidence and heart that we were on the right lines, and enhanced that.

As I said, we have a detailed improvement plan, which is one of the outputs of the external review. There were in excess of 90 recommendations; those are part of one single improvement plan, of which our board and the assurance board have oversight.

I have described three priorities. The fourth is culture. There are programme boards for finance, planned care, unscheduled care and culture. All the recommendations are overseen by the four programme boards, which report up to the board.

I will make a final point before I ask our board chair whether she has anything to add. When we can clearly evidence that we have implemented a recommendation, we have a formal way of proposing to the board that it is closed off; the board then formally closes it off. Indeed, we took the latest improvement plan, with some closures, to our board last week. Please know that there is a very robust process behind the governance of the improvement plan.

Alison Evison: Laura Skaife-Knight has said a lot of the things that I was going to say, so I will be brief.

The external review was reassuring, because it built on things that we had already identified. We had already been doing a lot of planning, but it took that further. The way that the review was structured gave us the opportunity to take that forward in the improvement plan that we have produced.

An important learning point for the board was that we were looking at too many things. We had to hone that down in relation to what we were doing on improvement and on the sustainability piece, because another key aspect is about ensuring that improvement is lasting and that we are building an NHS Grampian that is sustainable into the future.

Laura has touched on board reporting; I will add to what she said. Improvement plan actions first go through a committee, where thorough scrutiny takes place. The committee then makes a recommendation to the board as to whether those recommendations should be closed off. The committee is an important place to look in detail at recommendations that are being presented as ready to be closed off.

Joe FitzPatrick: Alison, we have worked together on a number of things so I know that what I am going to ask about—transparency—is something that you care about. When you make decisions, can the public see what those decisions are? Are you publishing all that?

Alison Evison: Yes. Transparency is absolutely key, as you might imagine, having worked with me in the past. Transparency is important to us. More people are attending our public board meetings online, and we are keen to do media work after meetings to let people know what was decided. In fact, just last week, that media work was done by wider members of the executive team so that more people are standing out and taking a transparent approach.

After every board meeting, to give transparency, I write a detailed briefing about what happened at the board and what decisions were made. That briefing is shared with all staff because it is important that we have all staff working with us. We are working with all the staff and they are working with us, so my board report goes to tell all staff what was said at the board. The briefing is also shared with three local councils so that they also have transparency about what was discussed.

It is important that the decisions that are made on the work that we do are transparent. We are looking at things that involve savings, and we need to give assurance that the quality of our staff and safety of our staff and patients is at the forefront of that work.

We need to be transparent, and we are willing for more ways in which we can be more transparent to be presented to us.

Joe FitzPatrick: I have a final question for NHS Grampian. On making public services more efficient, the Government is keen that we work together across public services. Are you looking to share more of the back-office work and salaries across the two local authorities and the health board? Are you working on getting better at that?

Laura Skaife-Knight: It is early days but that is the type of space that the new north-east transformation group that I will chair needs to get into. As we move towards 2026-27, we already have a longlist of eight areas that we want to look at, and that is the space in which we will have those discussions.

Joe FitzPatrick: I have a couple of questions for NHS Ayrshire and Arran, which is a little bit behind NHS Grampian in terms of escalation to level 4. What do you hope to get from that? Is it something similar to what NHS Grampian has experienced?

Gordon James: It is absolutely similar to what NHS Grampian has been experiencing. Based on the initial conversations that I have had with Scottish Government officials, we are taking a similar approach. There will be different levels of escalation and different themes, but the overarching approach will be similar.

Lesley Bowie: I am going into it with an open mind. We have had a brief conversation with Alison Evison and will follow that up so that I can understand the experience of NHS Grampian. My understanding is that it has become a positive experience, and I hope that it will be the same for us at NHS Ayrshire and Arran.

Joe FitzPatrick: I guess that the hope is that patients will see the benefit at the end of it. Working across the public services will be more complex for you because of the landscape—you have more local authorities, for a start. Are you managing to pull that together to make savings, particularly on the back-office work?

Gordon James: The back office can be looked at in two ways: across the health sector or across the public sector. In fairness, we are looking at it both ways. We will get into the new subnational planning. A business systems programme has been launched across the NHS in Scotland, and that is looking at a new single, consolidated, national system that brings together things such as human resources, payroll, procurement and finance. That will give us and all health boards across Scotland opportunities for how we deliver

those services and being more efficient with new digital technology in that space, including self-service for users.

From the local authority point of view, I meet the three chief executives of the councils regularly and, as has happened with NHS Grampian, we have had one meeting of our transformation board. The first formal meeting will be tomorrow, when we will agree the terms of reference and the areas of focus that I laid out earlier. One of those areas of focus is to look at options for shared services. Again, on a local basis, that could be something such as transport.

Although we have three local authorities and three integration joint boards in Ayrshire, certain IJBs take an almost lead agency approach. For example, East Ayrshire is the lead for primary care, South Ayrshire is the lead for equipment stores and North Ayrshire is the lead for mental health services. We will be looking at whether there is a way that we can expand that model as we move forward to have a lead IJB for shared services. That builds on your comment about shared services.

11:15

Joe FitzPatrick: One of the criticisms in the external audit was that the whole-system plan did not sufficiently demonstrate what you are doing to improve things. Are you developing an improvement plan that is similar to that of NHS Grampian?

Gordon James: NHS Grampian has shared a copy of its savings plan with us. Although ours will have a different flavour to it because it is for a different system and different population demographic, we are taking a similar approach. We are focusing on three main areas of transformation that underlie the principle of right care, right place and moving from acute to community care where appropriate.

In the short term, we are looking at our surgical, acute medical and emergency models and, within that, how we could transfer care from the acute service into the community service. We know that there is a cost differential in that because we know the cost of a bed versus the cost of care at home or a care home. Some of that might mean that some of our budget transfers but we are in a position in which we need to reduce our costs and bed base in Ayrshire. We have too many beds and that is causing us a cost pressure.

The Convener: I have a final question out of curiosity. Did you share the improvement plan when you arrived in the Parliament this morning, while you were discussing giving evidence, or would you have done that anyway?

Gordon James: We got the NHS Ayrshire and Arran KPMG report almost as soon as it was published. We have had it for a long time.

We share information with each other and with other boards. I said in evidence that we have taken a lot of learning on being concise in our financial reporting from NHS Lanarkshire, which has supported us,. Likewise, when we have areas of excellence in practice, we share that with other boards.

Laura Skaife-Knight: A huge amount of work is being done across Scotland to reduce unwarranted variation and differences in performance, access and outcomes. We have learned a lot about unscheduled care from NHS Lothian because it is further ahead than us; it is offering us buddying and peer support. Similarly, we asked for an external review of planned care to tell us whether we have looked at absolutely everything. Learning from one another is part and parcel of how we do things in the chief executive community across Scotland.

The Convener: I am afraid that I cannot bring you back in, Mr James. I am sorry but I am applying the Walter Citrine rules from "The ABC of Chairmanship", so you can only come in once.

I thank you all for sharing your experience and giving us evidence this morning to illuminate our picture of where you stand and where things are in the wake of the two section 22 reports. We very much appreciate your time this morning. I formally thank Alex Stephen, Alison Evison and Laura Skaife-Knight from NHS Grampian, and Gordon James, Lesley Bowie and Crawford McGuffie from NHS Ayrshire and Arran.

I suspend the meeting to allow for a change of witnesses.

11:18

Meeting suspended.

11:26

On resuming—

Scottish Government's Approach to Financial Interventions: GFG Alliance

The Convener: I welcome everyone back to this meeting of the Scottish Parliament's Public Audit Committee. The next item on our agenda is consideration of the Scottish Government's approach to financial interventions, with particular reference to the GFG Alliance arrangement at the Lochaber aluminium smelter.

I am pleased to welcome our two witnesses: Jeffrey Kabel, chief transformation officer at the Liberty Steel Group; and Helen Lambert, senior legal counsel at the GFG Alliance. You are both very welcome. Thank you for joining us—we appreciate it.

We have some questions that we would like to put to you, but, before we get to our questions, I invite Mr Kabel to make a short opening statement.

Jeffrey Kabel (Liberty Steel Group): Good morning, committee members. Thank you for inviting me to discuss GFG Alliance's businesses in Scotland.

I am the chief transformation officer of GFG Alliance and a member of the board of directors of the Liberty Steel Group, which is the ultimate holding company of all the global businesses. I have oversight of all the United Kingdom businesses and have direct management over the Lochaber businesses and lands in Fort William.

I am supported today by Tom Uppington, who is the managing director at Alvance British Aluminium and SIMEC Power. Unfortunately, Ruaridh Macdonald, who is the head of estates strategy and development at Jahama Highland Estates and manages 140,000 acres of Highland estates surrounding the smelting businesses, could not make it today. I also work closely with Gordon MacRae, the operations manager at Liberty Steel Dalzell, who is here today, and with Helen Lambert, who was introduced earlier.

I highlight GFG Alliance's contribution to Scotland over the past 10 years. The business context in the UK and for GFG has been challenging for a number of reasons. I do not need to emphasise the impacts of Brexit and Covid nationally and globally. However, for GFG, there was also the well-known and well-covered collapse of our main finance provider, Greensill Capital, in early 2021. I was brought on to the board in May 2021, just after the Greensill collapse.

Despite those challenges, since 2016, GFG has provided tens of millions of pounds of funding in the Scottish businesses, through capital investment and operational and salary support. We remain fully committed to operating and developing our Scottish aluminium, steel and hydropower assets.

When I joined the business, one of my key priorities was to ensure that the smelter, hydro and our estates fulfilled their potential as unique integrated assets for sustainable manufacturing. On a recent visit, Sky News reported that it thought that the combined operations amounted to the largest factory in the world.

Our goal has been to optimise the water catchment collection areas of the estates, annualised reservoir hydrology levels and aluminium and electricity production levels. The split is determined by prevailing global, London Metal Exchange, aluminium and UK power prices, coupled with national grid balancing mechanism requests.

We were connected to the grid about three years ago. We provide a balancing mechanism for the grid when there are issues with wind and so on. We have made significant progress in developing the assets and, more importantly, the joint teams to collaborate. This remains our core global competitive match. I pulled the whole group together—the estates were run separately, and I pulled everything into one operation.

11:30

To that end, we will shortly provide to the Scottish Government for discussion a proposal for a substantial investment in an expansion project to complement and further enhance the national strategic value of the smelter. The estates of Jahama Highland Estates, which surround the smelter, are a huge part of our business in the Highlands and the local community, and we are making significant headway in supporting the growth of the estates. That work encompasses community and conservation support via commercial, recreation and tourism investments. The value that we are bringing has been recognised by the £2.3 million grant that was recently awarded to us by Scottish Forestry to carry out one of the largest woodland recovery projects ever to have been undertaken in the UK.

We have a very constructive relationship with the Scottish Government, to which we provide regular reporting and updates to ensure full transparency, and our vision for sustainable manufacturing complements Scotland's wider industrial agenda. That working relationship is very strong, and I, personally, am heavily involved in it. About 40 per cent of my time globally is spent on

the Scottish businesses. We are committed to partnering with Scotland to promote the Lochaber community and Scottish industry.

I want to reinforce the point that no public funds have been spent under the Lochaber guarantee. The Scottish Government continues to earn the expected income in the form of guaranteed fee payments from GFG Alliance.

Our Dalzell plant in Motherwell paused production in August 2024 due to poor market conditions, with the staff being placed on a furlough arrangement that was agreed with the unions. That important step by GFG Alliance allowed staff to be retained and put the business in a strong position to recommence operations. The company has plans to recommence operations at Dalzell to supply plate for naval warship building. GFG has been awarded a large contract by Navantia, and it has the opportunity to bid for more work in the near future. It is worth noting that in excess of £20 million of funding has been provided to Dalzell to ensure that employees can be retained and paid throughout the period.

Finally, even though I have been a citizen for 17 years and have lived in the UK for 23 years, I still cannot pronounce “aluminium” the way you do.

The Convener: Thank you very much, Mr Kabel. To open, I would like to try to establish what the ownership structure of the site in Lochaber is. As I understand it, the SIMEC Group, which owns the hydropower stations at Kinlochleven and Fort William, is owned by PK Gupta, which is headquartered in Hong Kong, while Liberty Aluminium Lochaber Ltd, which owns the smelter, is owned by Sanjeev Gupta, whose company is headquartered in Singapore. Also in the mix is Alvance British Aluminium. Could you illuminate the relationship that exists between those different subsidiaries?

Jeffrey Kabel: I might defer to Helen Lambert on that. Ultimately, they are all owned by the same owner, but the structure of the businesses when the company was acquired was such that they were put into those different buckets. However, I assure you that they are all run as one business.

The Convener: So, there is one owner. Is there one director, or is there a board of directors?

Jeffrey Kabel: There is one overall director of all the businesses. Underneath that, there is a sub-governing board.

The Convener: I presume that the overall director is Sanjeev Gupta.

Jeffrey Kabel: Yes.

The Convener: Thank you. Given that you mentioned that full transparency is important to you, I am bound to ask—you will have seen that the committee has raised this on a number of occasions—why you do not have any auditors and have not lodged audited accounts. As you will understand, we are the Public Audit Committee.

Jeffrey Kabel: Again, that is an issue that I took on when I came in. I was made a director of several of the companies, but not all the companies, which means that I am party to the discussions on Companies House, along with the other directors.

We have engaged with Companies House from the get-go on all our businesses. That process is progressing, and we hope to come to some arrangement. However, in the meantime, we have obtained auditors for the Lochaber smelter, for Lochaber Hydropower and for Dalzell, and we are completing the audits for those. Dalzell is a bit further behind Lochaber—I am sorry; I mean behind Alvance and SIMEC—but there are auditors in place right now.

The Convener: When was the last time that you lodged audited accounts with Companies House?

Jeffrey Kabel: I believe that it was in 2020.

Helen Lambert (GFG Alliance): It was in 2019-20.

Jeffrey Kabel: It was a while ago.

The Convener: That is a long time.

Jeffrey Kabel: Yes.

The Convener: Am I correct in thinking that you are the subject of prosecution by Companies House?

Jeffrey Kabel: Yes, we are.

The Convener: Is that for failing to lodge audited accounts?

Jeffrey Kabel: Yes. The management accounts have always been completed for all of the accounts. The reason is that we had auditors in the UK that walked away, as you probably read about.

The Convener: It was King & King.

Jeffrey Kabel: Yes—the auditors walked away. That was very difficult, so, over the past couple of years, I have been involved in canvassing regularly to get auditors in. As I said, of the operating companies that we have now, half are already being audited. However, as Helen Lambert said, we have to go back to 2020. Why the audits were not done in between, I cannot say, as that was before my time. However, my goal is to get all the audits done as quickly as possible and to get them submitted when we can.

We actually tried to submit the accounts, but Companies House rejected them. It is well aware of my efforts to get auditors. However, I would say that we are on a good path right now.

The Convener: When did you try to submit accounts that were rejected?

Jeffrey Kabel: I believe that it was—

The Convener: Which year's accounts were those?

Jeffrey Kabel: They were for 2020, and I believe that it was in August or September 2021. In fact, after that, Companies House actually posted Alvance's accounts online, but it realised that there was a mistake and pulled them off—you probably read about that. We have offered to provide those all along.

The Convener: As I understand it, the reason why King & King resigned as auditors was that it wanted to put a qualification on the accounts. However, Mr Gupta refused to accept a qualification on the accounts, so King & King walked.

Jeffrey Kabel: I was not here when that happened, but, yes, I believe that there was a disagreement on that qualification.

The Convener: Why has it been five years and you still do not have auditors in place?

Jeffrey Kabel: Number 1, because of that issue. Number 2, because of Greensill Capital. Number 3, because of the Serious Fraud Office investigation.

Frankly, there is very little audit capacity out there. There are only four big audit firms, and they have all been fined immensely over the past however many years. That means that taking on a new large conglomerate is very difficult. I therefore went to each operating company. We got close on a few, but, because of those three issues, it was almost impossible to put that in place. That is all documented—me emailing and speaking with people to try to get them in.

Those were the three principal issues as to why. As I said, the accounts are done, but getting them audited is taking a bit longer, because we have to go back—in some cases four years—to get that done.

The Convener: You have an internal audit function, though.

Jeffrey Kabel: Yes, we do. As I said, the accounts are done internally, but getting them out and audited has been a challenge.

The Convener: You mentioned the Serious Fraud Office investigation, which I think goes back to 14 May 2021, so it is a long-standing investigation. My reading is that the SFO usually investigates only what it describes on its website as the most

"serious and complex fraud, bribery and corruption cases."

Is that what it is investigating here?

Jeffrey Kabel: I cannot comment on the investigation. I can say that I am the correspondent, because I was not here when what the SFO is looking at happened, although I cannot say what it is looking at. I would say that the investigation has ebbed and flowed. It goes dramatically fast and then it slows down, and then it goes dramatically fast. There is quite a bit of engagement, and it is positive, and I think that both sides want a resolution one way or another. However, unfortunately, it has taken a long time. We have fully complied with everything that the SFO has asked for and we continue to do so.

The Convener: However, it is a matter of public record that the headings of investigation that the SFO has are serious fraud, fraudulent trading and money laundering.

Jeffrey Kabel: Yes.

The Convener: Is the investigation only in relation to Greensill Capital, or is it about the relationship with the GFG Alliance?

Jeffrey Kabel: I cannot comment on that. We do not exactly know. We are just at the end of section 2 letters requesting information.

The Convener: So, you do not know what the charges or the suspicions are, because the SFO is at the stage of suspicion and investigation.

Jeffrey Kabel: Yes. We could postulate, but we do not know. Sometimes, when we think that we know, the SFO goes in another direction. All that I know is that we are fully engaged. You are sitting with the person who receives the letters and works with all my internal teams and lawyers to make sure that the SFO receives the information.

The Convener: Okay—you are the correspondent.

Jeffrey Kabel: I am the correspondent.

The Convener: Where does Mr Sanjeev Gupta sit in this?

Jeffrey Kabel: He is the party, but the SFO needed someone to correspond with who is outside the system, which was me at the time. As I am on the board now and have coverage of the UK, which is where the issue that the SFO was looking at is situated, it was decided that I would be the correspondent.

The Convener: I have one final question before I bring in the deputy convener. It concerns a historical issue that will have occurred before your time, Mr Kabel—perhaps Ms Lambert can help. A document that was produced in 2016 by EY—formerly Ernst & Young—on the business case for the arrangement between the Scottish Government and the GFG Alliance discussed the

borrowings that the SIMEC Group had at that time, which were $21.3 million due to B&N Bank Russia; $25 million due to International Bank of St Petersburg, secured against receivables; and $34 million due to Greensill Capital Ltd, which was an unsecured loan. I take it that you no longer have financial relationships with Russian financial institutions. Is that correct?

Jeffrey Kabel: I cannot comment on the past, because I do not recognise the position that you set out—maybe I should. However, I can say that we do not have financial relationships with Russian financial institutions.

The Convener: You appreciate that we are in a situation where there are financial sanctions, prohibitions, asset freezes and so on in relation to Russian institutions.

Jeffrey Kabel: Absolutely. When the Russians invaded Ukraine, because of the businesses that we were involved with, the Department for Business and Trade made quite an exhaustive effort in relation to the smelter and the steel plants, asking questions such as where we get our iron ore from—we do not buy iron ore—where we get our scrap from and where the raw materials come from for the smelter.

I am clear that, from that time, as you know, everything has had to be above board and kosher. Since my time, and particularly with regard to the Ukraine war, we have looked at everything in relation to the issue that you raise.

The Convener: Okay. So, as far as that issue is concerned, you think that you are above board and kosher.

Jeffrey Kabel: Yes—absolutely.

The Convener: Jamie Greene, the deputy convener, has some questions.

Jamie Greene: Good morning. Let us just put all this into context. The Auditor General does not produce these reports just for the fun of it; he usually does so when there are valid concerns or a rationale for investigating such things.

We have always had an interest in the Scottish Government's interactions with your business, and we are aware of issues including the Serious Fraud Office investigation, which has remained live over a number of years; the issues that you are facing in your other site in Scotland; some of the other insolvency and liquidation proceedings that other parts of the business are going through at the moment, including quite a substantial administration in Australia that requires huge Government support; various international legal and regulatory investigations, such as the one in Romania into embezzlement and fraud; and your failure to file accounts or appoint auditors in the UK. It is just a big, long catalogue of misgovernance and poor practices. Please tell me in which way GFG Alliance is a fit and proper organisation to do business with in Scotland.

Jeffrey Kabel: At the time of the original deal, in 2016, and subsequently, anyone who looked to acquire the Lochaber business would have shut down the smelter. Quite frankly, it is uneconomic. Even though it has low energy prices due to hydropower, it is small and it is far away. However, we came in and said that we would keep the smelter going, which we have. We have increased headcount by 40—we are now at 207. I know that we have had a couple of goes at different projects. I am the one who killed the previous two, because I thought that they were too expensive and did not create enough jobs, and the markets were very commoditised. Over the past couple of months, we have spoken with the Scottish Government in broad brushstrokes about the one that we are talking about shifting to. The investments have been there.

On top of that, we are still here, after all those things have happened. A lot of that is because I continually speak with the Scottish Government, our local MPs, the UK Government and the unions, and I tell them the good, the bad and the ugly, hopefully before it happens—I do not see everything that comes.

11:45

At the end of the day, the two principal disabling issues since I have been here have been the Greensill issue and the SFO investigation, which, as you said, started a couple of months after I came in. Those are being addressed.

On the issue of other assets around the world, I think that there was the desire to save assets that, quite frankly, probably should not have been saved. Everything was done to get those assets going. We are making a success of some of them and we have failed with others. Do I regret having a go at doing that? In some cases, yes. However, the intention was to come in and save some of those assets.

On the assets in the UK, especially steel, we have injected £200 million in loss funding over the last four or five years. We had finally fixed that asset and we were ready to refinance it with BlackRock, but, at the end of the day, our creditors voted against it, and now it is sitting with the official receiver, which the UK Government is not happy about, because it is a good plant.

I am not obfuscating, but, yes, a lot of issues have been popping up. I cannot comment on them because they are on-going investigations. I know the Australia situation well, because I am on the board of InfraBuild—that is the meeting that I have

to go to a bit later—and was just down there. I would say we poured a lot of money into that business and had a plan to convert to clean electric arc furnaces, but the gas that was promised by the state never arrived and there were no trade remedy authorities such as the ones that exist in the UK that would have kept out Chinese and Vietnam competition with regard to our production of billet. The situation was hampering our other businesses, because InfraBuild is probably the second largest producer of steel in Australia—it is a big construction business. Quite frankly, I am not happy about the situation.

In the US, we furloughed that facility for about six months, but it is now running fully. It has had some operational issues and has also been a big cash drain, but it has very good margins. A lot of people told us to give it up, but we did not.

Perhaps we should have given up on some of those assets earlier. However, I have always focused my time on the two assets in Scotland, and I will continue to do so. This summer, for the first time ever, we tested selling products from the Lochaber smelter to the US, and we are now selling half of our output to the US. That is not only because the margins are good because of the Trump tariffs, but because it makes good business sense to diversify our market beyond what we sell to the UK and Europe. I think that those sales to the US will continue, because, regardless of whether the US fixes its relations with Canada, the Americans are looking for a diverse supply. Further, that metal is the greenest in the world.

We run the Lochaber business very differently to the way in which others have previously. I am a trader, so I optimise the income and the flows of power to the grid as well as the amount of metal that we make. I will not put more pots on to make more metal unless I have seen a quarter forward of pricing that supports that. I am the one who killed the deals on the two projects that I mentioned earlier, and I did that because I did not think that they were going to work, as there was too much risk.

Dalzell is probably one of the best mills in the country right now. It produces plate, and, as I said, we have run a huge defence contract. It has been painful to keep the plant on furlough. I had to delay commencement again because we had to do some refinancing, which we are completing this week.

Given all of that, were we the best owner? I do not know, but I look at what is happening with British Steel, with Tata and with Celsa, which is changing hands, and I note that we are still here, for the most part.

Have we made mistakes? Yes. Are issues being investigated? Yes. Do I still think we are the right owner or partner for Scotland on the assets that we have? I would say yes.

Jamie Greene: I appreciate your frankness on that, but you can see that the optics around this are absolutely dreadful.

Jeffrey Kabel: Absolutely.

Jamie Greene: Particularly when the Scottish Government is exposing the taxpayer to risk on the guarantees. I appreciate the value of that risk has come down over the years—we have seen some statistics around that and have had Government officials in to update us on that. That is a welcome and positive direction of travel, although there is still a huge amount of uncertainty about how much revenue the Scottish Government and, therefore, the taxpayer is earning from the deal—that is entirely opaque, I have to say.

Given what you have said, it seems to be a group of companies that just makes really bad investment decisions. Why would you invest in a business that is uneconomic? You are not a charity, that is for sure.

Jeffrey Kabel: I will be honest with you. When I came to Lochaber—I am not criticising the management: you never do; they make decisions as they do—a lot of things were not managed properly. The estates were awful, but that is a small peanut in comparison. There was no grid connection and no desire to get one, but getting that grid connection changed the way in which we were able to manage that business. We export power when we do not need it to make metal. At the end of the day, the power is there to make the metal. When the smelter is running, it needs, I think, 56MW and we make 85MW. We take it down in the summer because of the heat, so as to keep the reservoirs at a certain level. We are looking at putting in battery storage alongside that. Unfortunately, because of our financial position, we could not rush as far ahead as I wanted to on those things.

My team, which was running the steel business in Sheffield, had fixed that business. It had been mismanaged for years, it did not make any money and the customers were not paying what they should have been paying for aerospace, defence and so on. BlackRock—the Scottish Government has met them—was our funder. It was the biggest funder in the world—it had funded our Australian businesses and our US business—and it was going to fund the new steps in speciality steel.

Over the past four and a half years, I have tried to make sure that I advise the Scottish Government and its advisers about the good, the bad and the ugly. There are some things that I do not see, but I think that these are good businesses.

Jamie Greene: We have only heard from the Government about the good bits. Just out of interest, what are the bad and the ugly?

Jeffrey Kabel: The bad and the ugly come from our end. Companies House is going to issue an administration—I warned the Scottish Government about it. When that happened in Australia, I did not know that it was going to happen; we were completely blindsided by it. We have had to do some other things in Europe and I always warn the Scottish Government about those. Over the past few years, I have kept it updated on an almost monthly basis about where the discussions with Greensill are and about settling the debt issue.

So, the Scottish Government has everything and it is very rare for it to say, "Oh, we've read this, and this is not good." Sometimes that happens, although I do not actually know when it has happened. I have always tried to make sure that the Scottish Government is informed, because, at the end of the day, it is taxpayers' money that is backing this. Not a dime has been drawn down—I do not expect that to happen, frankly—but I am a taxpayer and I understand that. I have a big issue with the south bailing out British Steel. It has had £350 million right now and there is still no strategy. There is still no strategy on what we left behind, even though we bid on it. I take that backing seriously. Even in relation to the woodland grant and the good things, we try to put it out there as a good investment, because I know that there have been some difficult investments up here.

Jamie Greene: I appreciate that my line of questioning has come across as difficult, but, as you say, it is taxpayers' money and we have a duty as a committee, as does Audit Scotland as an organisation, to unearth what that risk looks and feels like.

Is there a concern that, if you are unable to appease your creditors or recapitalise properly as a wider group of businesses, there is still a substantial level of risk to the Scottish Government and the taxpayer? Have you identified roughly what that risk might look like?

Jeffrey Kabel: I do not think so. Frankly, the security that the Government has is more than covered by the assets. If we tipped over—but that will not happen. I cannot say that it will never happen, but I do not see it happening. The Government has constantly wanted to know where Greensill is at and who the funding is going to come from going forward. Because of the early issues with Greensill and the SFO, it has been a challenge to get funding, and it is really expensive to do that. However, at the end of the day, I think that your investment is secure.

With the changes since the invasion of Ukraine, we need to buy things closer to home and strategically—including steel, metals, plastics and other things—and there has been an increase in defence spending. It is also one of the greenest—if not the greenest—facilities in the world. Maybe four, five or six years ago, there was a big risk in relation to the smelter keeping going, because of its cost structure. However, right now, I am confident that it is secure.

In the last year, the number of joint ventures that have approached us to partner has been dramatic. That is what got us to look at sending the metal to America and other parts of the world. It is not just about the Trump tariffs; the world has shifted in relation to commodities.

Jamie Greene: Have you ever lost out on new business opportunities simply because you did not have the capital funding for the raw materials?

Jeffrey Kabel: No.

Jamie Greene: On a more parochial point, without going into the commercial details of the deal that you made with the Scottish Government, I note that a public commitment was made to invest in the Lochaber site. I have seen various figures, including £70 million and £80 million. How much have you invested?

Jeffrey Kabel: An account is set up to do that, and it has to be £70 million. The project that we are looking at is substantial—I cannot go into the details, because I have not shared the paper with the Government, but I assume that you will be able to access it at some point—and I see no problem whatsoever in funding it. The project that we are looking at is very similar to a previous one. It will create the same number of jobs, but it is more relevant to world demand for the product. It has a similar footprint, so it is not a case of going back to the drawing board or ground zero. If we reach agreement on the project, development will start quite quickly.

Jamie Greene: There are a lot of ifs. Five years ago, you promised that there would be 2,000 jobs—

Jeffrey Kabel: Quite frankly, I do not know where that figure came from. That was before my time—

Jamie Greene: Someone must have made that claim.

Jeffrey Kabel: They did. It must have been a guess. We cannot get housing for 40 new people—imagine trying to get it for 2,000 people, let alone for the constructors. I agree with you. I apologise, but I do not know where that figure came from.

Jamie Greene: How many jobs do you think could be created in the local area? We all want

economic growth in the area—I am with you on that—but I want to be realistic.

Jeffrey Kabel: Not a heck of a lot. We are looking at another 10 jobs following the expansion, which will shore up the existing business. If we could put more pots on, we would, but we run things quite efficiently. We are not deploying any artificial intelligence—we cannot do that for our business. The work is labour intensive, but there will not be a huge increase in the number of jobs.

The bigger expansion in the number of jobs will come about from some of the things that I want to do on the estates. We are finalising our strategic plan in that regard.

However, I cannot see us squeezing a heck of a lot more jobs out of the smelting and hydro businesses. The investment that we will make will shore up and diversify the smelter's product range and make it even more sustainable.

Jamie Greene: Can you reassure me that you will not just walk away from all this?

Jeffrey Kabel: I assure you that I will not walk away from this.

Jamie Greene: Thank you.

The Convener: I want to take you back to the downstream activities and ask about two things. At one point, it was anticipated that Jaguar Land Rover and Nissan would manufacture a million vehicles, or a million cars, which would equal 4 million wheels. As you said, you killed that proposal, and then there was the billet plant proposal. Can you explain your rationale for stopping 4 million wheels being manufactured?

Jeffrey Kabel: The first one?

The Convener: Yes—we will go for that one.

Jeffrey Kabel: China. End of.

The Convener: The transfer of manufacturing of cars to China?

Jeffrey Kabel: No—the wheels are made in China.

The Convener: Okay.

Jeffrey Kabel: We had plans for a wind factory plant at one of our sites. We were going to build wind towers because we had a 140MW wind project in the works for Glen Shira. However, when I looked at the numbers, I found that it would not work, because wind towers come from Vietnam or heavily subsidized Denmark. Again, it comes down to energy issues and others.

On the billet plant, we did all the market studies and got letters of intent from offtakers, but the pricing was very volatile. The product is very commoditised. Other plants were coming online around the same time, so my fear was that once we got it going, it would be difficult to keep that market share, and the capital investment turned out to be much bigger than it was when we started looking at it. I was quite a proponent of that plant for a long time, but then we really got into the numbers in the markets. Until I came in, neither a proper market study nor an updated market study on the wheel plant had been done, so I took the decision that it was not a good use of funds.

12:00

The Convener: Related to that, one of the heads of terms of the agreement between the company and the Scottish Government, in part 6, is:

"No distributions would be made by the HydroCo or SmelterCo until"

a redacted sum of money

"is invested in an approved downstream activity."

Has that term been met—that there has been no distribution?

Jeffrey Kabel: No.

The Convener: Okay. Thank you. I am now going to invite Colin Beattie to put some questions to you.

Colin Beattie: I would like to explore more recent developments in relation to finance and so on. Excuse me if I jump around a wee bit on this.

Back in March 2021, when Greensill Capital went into administration, GFG Alliance needed to refinance debt of approximately £5 billion across its companies. That was refinancing the debt, not restructuring it. Does it still hold that it is refinanced rather than restructured? The debt in 2021 was £5 billion. What is it now?

Jeffrey Kabel: That is still with the Greensill creditors. To use your term, restructuring was step 1, and step 2 was refinancing the business. The debt load, of which 99 per cent sits with the Greensill group of lenders, is still there. That is still being adjudicated. We were very close to settling at the beginning of last year, but that fell apart, pretty much because of issues that happened in Australia, so we are still in the process of negotiating how that will come out.

We have funding vehicles, as I think I mentioned, in the background—BlackRock being the first one. It is not cheap money, quite frankly. I think that we are paying interest of 15 or 16 per cent; we should be paying 9 or 10 per cent, but that is what we have been borrowing to keep the businesses going. A bunch of other smaller financiers are lending to us, but those two issues—Greensill and the investigation—have hindered

our ability to deal with the situation. However, that is a lot less the case than it was two or three years ago. The board has recognised that, frankly, the lending was too concentrated into one group. It was moving away from that, but what happened, happened.

We have tried to keep many of the businesses going, but some could not meet the high cost of debt that we brought in later on. That situation is on-going, but with regard to bringing on new money—although it is not a huge amount, and it is very caveated—we are in a much better place than we were even a year ago. That is why I say that we do not have that issue with the Scottish businesses—Dalzell and Lochaber—because of where they are and because of the actual product that they make.

Colin Beattie: The original amount that needed refinancing was £5 billion. Has that increased?

Jeffrey Kabel: No.

Colin Beattie: It is still—

Jeffrey Kabel: It will be reconstructed, as you say.

All the funding, other than what I have mentioned, has come out of equity. As I said, the money that we put into the UK to keep Speciality Steel UK going and the funds going into Lochaber and Dalzell have been equity capital.

Colin Beattie: You mentioned the optimism back in February 2025 that an agreement had been reached with the creditors of Greensill, which was subject to final binding legal agreement. However, from what you say, the settlement did not happen.

Perhaps that explains the issues around Liberty Steel, because that was going to be restructured and fresh capital was going to be put in. I am going on the basis of newspaper reports. I seem to recall that there was an issue with Liberty Steel in relation to providing steel under a contract—I think that it was a naval contract—because it did not have the capital or the cash flow to pay for the raw materials to produce the steel. Am I remembering that correctly?

Jeffrey Kabel: That was Dalzell. The Navantia contract—for a long time, we could not say who the contract was with, because it was a Ministry of Defence contract—took 10 months longer to award than it was supposed to. The markets were terrible for plate. Finally, the UK Government put some trade remedies in place to keep out Korean plate. We did not want to restart the plant until that contract was awarded. We were not sure that the contract was going to come, but we were pretty sure, because it had to be plate and it had to be UK sourced, so we thought, “Hello? That’s really only Dalzell.” That happened much later. We were awarded the contract, and we purchased the first shipment. I had a financing vehicle lined up, but it got the jitters towards the end of the year—first, because what was happening with British Steel was being not sorted out, and, secondly, because of what happened with our business, Speciality Steels, in Sheffield.

We do not have that issue in the aluminium business because it is a different animal; it can be hedged on the London Metal Exchange. Right now, there is an issue, although that is actually not so much about us any more as it is about UK plc and British policy on metals. However, we have secured funding for Dalzell. We are papering it right now, so I expect the plant to be up and running in the next three or four weeks, once we procure the metal—the slab feedstock—from British Steel into Dalzell. It has been a challenge. However, once it gets going—we have a couple of other interested parties who want to take metal from the plant—it will go, so I am confident. A lot of this is a bit on a knife edge. It was supposed to be nailed down at the end of last year and it has fortunately bled into February, but I am confident that we will get it going.

Colin Beattie: I want to get this clear in my mind. Going back to the investigation that is under way, which must cast a shadow over things, how many companies are involved in the issue?

Jeffrey Kabel: I cannot disclose that. I am sealed on anything with regard to the investigation. All that I can tell you is that it is on-going and we are fully engaged. We respond very quickly to anything that is asked, and I am the corresponding party, so I am not telling you that second-hand. I am telling you as the one who is zipped as far as saying anything. I am not trying to obscure anything, but we cannot talk about it.

Colin Beattie: I understand that it is a live investigation. How many companies are involved in the refinancing process?

Jeffrey Kabel: Greensill has interests in many of the businesses, just because of the structure of multiple countries and multiple jurisdictions, and energy businesses, steel businesses and metal businesses. However, at the end of the day, it all rolls up to the fact that there must be a global settlement, so it will not be done piecemeal. That is what we have been working on since day 1, frankly. We were close to having the process done in February, but, unfortunately, what happened in Australia set off a chain reaction with regard to how that was going to be structured and funded. I hope that, in the next few months, we will be able to come back to settling with the Greensill people.

Colin Beattie: My next question was going to be whether it would be individual or across-the-board refinancing.

Jeffrey Kabel: I think that it would have to be done across the group.

Colin Beattie: Do you have any idea when that might be concluded? It is obviously a major issue.

Jeffrey Kabel: I cannot tell you how many letters I have sent out—agreements in principle, which you have seen. I think that it will either be in the next few months or towards the autumn.

Colin Beattie: Do any of the global entities involved provide any security or guarantees in relation to the Scottish firm or the guarantee entered into with the Scottish Government?

Helen Lambert: That is all in the detail of the commercial arrangements, and I must admit that I am not entirely sure whether I am able to disclose those in a public forum.

Colin Beattie: Linked to that, are any of these entities still subject to refinancing?

Jeffrey Kabel: I cannot comment on that.

Colin Beattie: That would obviously impact on the Scottish Government.

Jeffrey Kabel: I look at the businesses as one, regardless of the structure. At the end of the day, there is one shareholder. Obviously, we look at the businesses regionally and fund them regionally through the arrangements that I have described, but the overall operation is managed at a global level. The goal is to make sure that all of that is sorted as part of the restructuring and the refinancing.

The Convener: Graham Simpson has some questions to put to you.

Graham Simpson: Do you think that the alloy wheel plant will ever happen?

Jeffrey Kabel: Here?

Graham Simpson: Yes.

Jeffrey Kabel: No way.

Graham Simpson: There is no chance of that happening.

Jeffrey Kabel: No chance.

Graham Simpson: Right. What about the aluminium billet factory?

Jeffrey Kabel: As I mentioned earlier, we are looking to pivot to another project, which I have not fully formally briefed the Scottish Government on.

In my view, given the capital cost of putting in what I would call a commodity business, which would have a lot of competition and would involve lot of price fluctuation, billet production would not be a good business for a smelter in northern Scotland to get into. Although we cannot say that the project that we are looking at now will be fully immune to that, it will be pretty immune to it, because a lot of the product will go to the UK.

Graham Simpson: Do you mean the product from the new project?

Jeffrey Kabel: Yes.

Graham Simpson: So whatever will be made there will be sold largely in the UK.

Jeffrey Kabel: Yes, that is what we are planning on.

Graham Simpson: But you are not going to tell us what the proposed project is.

Jeffrey Kabel: Let us just say that it is infrastructure driven.

Graham Simpson: Infrastructure driven? How curious.

Jeffrey Kabel: I gotta give you something, right?

Graham Simpson: So whatever you make there will be used to build things.

Jeffrey Kabel: I do not know whether you have been up there, but that facility, which was built in 1929, is a feat of engineering. The answer to your question is yes.

Graham Simpson: Okay. What about the port facility at Corpach?

Jeffrey Kabel: It is still operating—it supports the businesses.

Graham Simpson: What about the canned mountain water business? Did that ever happen?

Jeffrey Kabel: I killed that.

Graham Simpson: You killed that. Why?

Jeffrey Kabel: I did not see the point of it. Again, we are talking about a very small commodity business. We are not in the retail business.

Graham Simpson: Okay.

How many people are employed at Lochaber?

Jeffrey Kabel: Two hundred and seven.

Graham Simpson: Right—207. You said earlier that you do not see that figure rising by very much.

Jeffrey Kabel: No. We have added 40 employees since we took over the business. The second two projects will add about 10, but they will shore up the diversity of the smelter's products.

Graham Simpson: To go back to the mystery big project that you alluded to, when do you think that we will get an announcement on that?

Jeffrey Kabel: We have to go through the proper channels with your colleagues in the Scottish Government. We have briefed them on what we are looking at and the reasoning for the pivot. We have set out why we should go that way, but I am not going to say that it is done. We need to properly stop the first project before we can begin the second one. Because it involves such a similar footprint as far as the machinery and the various requirements are concerned, it will not involve a big change.

How long that process takes is up to the Scottish Government, but I hope that it will be completed sooner rather than later. We have done most of the engineering, as well as the market studies, so there are not many boxes that I have to go back and tick. The planning permission might need to be tweaked, but it is already there. The new project will not go on peatland. The other one did, which caused its own issues and costs. Therefore, I am hopeful. In fact, the document is sitting on my desk. I need to get it across to the Government, but I hope that we will be able to move on that in the next couple of months.

Graham Simpson: Do you need the Scottish Government's go-ahead for the project?

Jeffrey Kabel: Yes.

Graham Simpson: Right at the start, you mentioned a woodland project. Can you tell us a bit about that?

Jeffrey Kabel: We already do quite a bit of reforestation and peatland restoration, and we have a full staff for deer management. However, the issue is that, in the past several years, not necessarily our estate but some of the adjoining estates have not properly accomplished deer management, and that is causing a big problem with some of the forests up in that part of the world. We are replanting and restoring peatlands and, frankly, we will need to reduce the deer population in the next several years. The issue is the same as we are seeing other parts of the country and in other parts of the world. It is unfortunate, but to be blunt, if you go up there right now you will see that the impact is visible.

12:15

Graham Simpson: You said that you got a grant to do that work.

Jeffrey Kabel: It was awarded just last week.

Graham Simpson: How much was the grant?

Jeffrey Kabel: It was £2.3 million over five years, I believe.

Graham Simpson: That is to plant trees and—

Jeffrey Kabel: It is for everything that I have mentioned. It is also heavily monitored by the forestry conservation commission, or whatever it is called.

Graham Simpson: Forestry and Land Scotland.

Jeffrey Kabel: Yes.

Graham Simpson: I also want to ask about Dalzell, which is in the region that I represent. If I was to go into Dalzell tomorrow—I have been in the plant but it was a few years ago—what would I see? I presume that nothing is happening at the moment.

Jeffrey Kabel: It got going again in December and did a couple of runs but, with regard to the funding to procure the next trains, we had to pivot to someone else. The opening ceremony will probably be at the beginning of May. I want to make sure that the plant is running so that, when we bring people up, they can see it running. The start is imminent. As soon as I finish up with this funding, which will happen at the end of this week and the beginning of next week, we will procure the metal from British Steel and it will take about four or five weeks to get the plant running again.

We have a contract—

Graham Simpson: That is what I was going to ask you. You have definitely got the contract to make plates for warships.

Jeffrey Kabel: Yes.

Graham Simpson: And that is from—

Jeffrey Kabel: It is from Navantia.

Graham Simpson: Is it for British warships?

Jeffrey Kabel: Yes. It is a Ministry of Defence contract with Navantia, which bought Harland & Wolff, and that was part of the reason for the delay. We expect to be able to bid on more, because that is just one part of the contract, and others are queuing up to have us bid as supplier. I am confident that, once we get going, we will be able to service those contracts and then look at the general domestic market and the American market, because the margins are quite good for plate.

Graham Simpson: What staffing do you have at Dalzell and do you foresee it growing? [*Interruption*.]

The Convener: Mr Kabel is required to answer the questions.

Jeffrey Kabel: It is 107 and we will probably add another 10 or 15. The thing is, as with any of these things, it is a ramp up. If we get to full output, which is the goal at the end of the day, that will mean more people. I do not know what that number is, but Gordon has run those. Apologies for referring to my colleague who is not at the table.

Graham Simpson: Is Clydebridge one of your facilities?

Jeffrey Kabel: Yes.

Graham Simpson: What is happening at Clydebridge at the moment?

Jeffrey Kabel: Originally, it was going to house our factory to make wind towers, but, as I said, when I dusted the plans off and looked at them again a couple of years ago, I saw that the project would not work from a competition standpoint.

Right now, we are close to a significant development project for that site. We are working closely with Scottish Enterprise on that. There has been a bit of back and forth with those who we are working with on it, but I hope that, in the next couple of months, we will be able to announce what is going to happen with that site.

Graham Simpson: Will that be something that involves Liberty Steel Group rather than you selling the site?

Jeffrey Kabel: I expect that we will probably sell the site, but we might keep an interest in it, because what goes there might be something that we look at doing at other sites around the world.

Graham Simpson: That is all very interesting. If you plan to have an opening ceremony at Dalzell at the start of May, you might want to wait until after the Scottish Parliament elections on 7 May, so that you can invite local MSPs.

Jeffrey Kabel: We will.

Graham Simpson: I might be one of them—you never know.

The Convener: We have pretty much come to the end of our time. My final question takes us back to the start. The Auditor General described the arrangement at Lochaber as a "complex transaction". We are interested to understand whether it is a unique arrangement or whether you have seen such a power purchase model—the guarantee and reimbursement agreement—anywhere else.

Jeffrey Kabel: I have seen such arrangements in multiple other places—not in the UK, but in the developing world, America and other parts of Europe. They are usually used for industrial assets, because it is in the interests of taxpayers and constituents' interests, as well as in our strategic interests, to ensure that such assets are kept in use. Such approaches do not always work, but that was the intention that they had at Lochaber at the time, which I think was correct. The intention at the time was—and still is—to invest and ensure that operations continue.

The Convener: Okay. The deputy convener has one very last, short question to put to you.

Jamie Greene: The first one is to ask for clarification on the alloy business that went to China. Was that a business that you owned or did it go to a competitor?

Jeffrey Kabel: No. We were not involved in it in any way. To use the wind tower project as an example, we bought the plant—the gold-plated one that was built in Wales—and dismantled it. The components were sitting in shipping containers in Clydebridge, and then the market fell out.

I think that there is only one tower plant left in the UK. There were going to be several because of all the wind power demand—there still is that demand. The UK should have such plants, because we have the plate mill down the road and we have the estates to build them. That was the thinking, because we have the pieces, but that particular piece just did not work. I was not at the company at the time, but the wheel plant was not feasible.

Jamie Greene: We build ships and wind turbines, yet we import 70 per cent of our steel from overseas, so we have an indigenous market that is not being used to its full extent. What is your advice to the Government?

Jeffrey Kabel: I hope that a steel strategy will be set out soon. I sit on the UK Government's steel council, and I ran the International Steel Trade Association for a while outside of my main job. At the end of the day, we still have the right people in place. We also still have the demand, although it is not huge and what we make is mostly high end.

The business that we unfortunately lost in Sheffield is an aerospace defence business—it is still not running. Some other businesses are viable, such as the Tata ones that supply Jaguar Land Rover, but there are a couple of big issues. First, there is no strategy—that was also the case with the previous Government. A strategy is supposedly now promised, so I will not blame the Labour Government for that, but energy costs are the highest in the world, and steel is a very intense business.

Despite those energy prices, we were going to make Speciality Steels UK and Dalzell work, because they make specialised products. In some cases, it is not a huge investment and the money is there for us to do that work, but there has to be a road in place in order for us to go forward. As I

said, our assets are the right ones, which is why we will continue to invest in them.

Jamie Greene: Thank you.

The Convener: Thank you for your frankness and for your time this morning, Mr Kabel. Let me put on record my apologies that the committee kept you waiting. I hope that you do not miss your flight to Australia.

Jeffrey Kabel: I will get on the phone with them now.

The Convener: Thank you for your very useful evidence. I also thank Helen Lambert for being here. We will now move into private session.

12:24

Meeting continued in private until 12:58.

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