House of Commons

Defence Committee

Oral evidence: National Shipbuilding Strategy Refresh, HC 181

Tuesday 17 May 2022

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Watch the meeting

Members present: Stuart Anderson; Dave Doogan; Richard Drax; Mr Mark Francois; Mr Kevan Jones; John Spellar; Derek Twigg.

In the absence of the Chair, John Spellar took the Chair.

Scottish Affairs Committee Member present: Pete Wishart (Chair).

Questions 1-40

Witnesses

I: Sir John Parker, Independent Reviewer of the National Shipbuilding Strategy (2019); Ian Waddell, General Secretary, Confederation of Shipbuilding and Engineering Unions; and Richard Powell, Maritime Defence and Security Group Council, Society of Maritime Industries.

Written evidence from witnesses:

(NAV0031) The Confederation of Shipbuilding and Engineering Unions (CSEU)

(NAV0032) Society of Maritime Industries (SMI)

Examination of witnesses

Witnesses: Sir John Parker, Richard Powell and Ian Waddell.

Chair: Today we have our inquiry into the national shipbuilding strategy refresh. Our witnesses are Sir John Parker, independent reviewer of the national shipbuilding strategy; Ian Waddell, general secretary of the Confederation of Shipbuilding and Engineering Unions; and Richard Powell, chair of the Maritime Defence and Security Group Council of the Society of Maritime Industries. Welcome to the Committee. Our first question comes from Derek Twigg.

Q1 **Derek Twigg:** Welcome. What does the refresh change from the previous national shipbuilding strategy, and what will that mean for UK shipbuilding? What impact do you think the new National Shipbuilding Office and Maritime Capability Campaign Office will have?

Sir John Parker: First of all, Chair, thank you for inviting me yet again. I am, obviously, further removed from the 2017 strategy review and the 2019 implementation review that I examined. I welcome this refreshed strategy. I think it has given a lot more clout to what I prepared and proposed at the time.

There are many positive aspects to this that are worth reflecting on. First, the 30-year pipeline, which was part of my recommendation on naval ships, has been boosted by the range of merchant ships—low-tech or other tech ships—that Government fund. There is a very long pipeline there, and I may come back to that in a moment. That 30-year signalling to industry—the total potential shipbuilding enterprise—is very important.

Secondly, the appointment of a Government tsar at Secretary of State level is a very welcome development. It demonstrates a positive commitment to an industrial strategy. I have to say I have spent a lot of my working life in shipbuilding when the discussion was more about deindustrialisation than industrialisation. The shipbuilding tsar, as the Secretary of State of Defence, has a range of inter-ministerial committees—I think it is page 18 of the report, if I remember correctly—that are concerned with implementation across Government. One would hope that will bring the co-ordination that is very much needed.

The other thing I welcome very much is the National Shipbuilding Office—NSO—headed by Rear Admiral Rex Cox. I had the pleasure of meeting him only last week, and I took a very good view of him. He is an energetic man and a man of substance, and he is enthusiastic about the role he has been asked to perform. I took great heart from that.

The emphasis now is on boosting skills, which I did flag up, but it is very welcome and absolutely critical that action is being taken on it. Ian will no doubt have views on how it should be done, but I believe it has to be accelerated because we can no longer rely, as we did during the building of the carriers, on labour from Europe coming in, which is no longer available to us. That skills issue, Ian, is something that no doubt you will pick up.

Innovations in technology and R&D were another area. I flagged that each yard should have a global competitiveness plan based on investment in new technology and, in particular, digital engineering, on recruiting highly skilled graduates and on skills, and that those are the key ingredients for a competitive outcome.

Then there is the supply chain. When we think about shipbuilding, we tend not to think about the supply chain; the focus is on the shipyard. But the reality is that 60% to 70% of the cost of a reasonably sophisticated ship comes through the shipyard gates as components, equipment or raw materials. So that supply chain in the country is vital. Even if we sell a design overseas, we have the chance of plugging our supply-chain companies into that design, which no doubt Richard will have views on. That is a critical workload for competitiveness, because volume is critical. Volume is critical in shipyards and critical in the supply chain, in order to boost competitiveness. It certainly boosts productivity; it avoids hollows in the workload. It also absorbs overheads better. That supply chain needs the attention that it now looks to receive.

The other aspect is that years ago, we had something called the Ship Mortgage Finance Company, which financed ships built for UK owners, and now we are having a new shipbuilding credit scheme, which will allow the yards here to compete with overseas yards, in terms of any home-owner wishing to order in the UK.

So, I am very positive. I think this refreshed strategy gives a lot of clout or potential clout to the key issues that I identified as critical to address. What I would say is this. Clearly, for every strategy, you have to get buy-in; you have to build trust with all the stakeholders. This is where words have to be translated into deeds, and that will be the acid test of the strategy.

I will leave it there, Chairman. I probably have said too much.

Chair: No, that's a very useful opening. Ian Waddell?

Ian Waddell: As usual when I'm with Sir John, he has covered a huge span of issues, and a lot of what I wanted to say has been covered. If I may, Chair, I will pick up a specific answer to the question about what has changed and perhaps highlight some areas that I think are still unresolved.

The first thing is that, for the first time in my career in this industry, I am seeing policy translated into action. There is the creation of the NSO, and I will echo Sir John's comments on Rex Cox. I found him to be a very principled and straightforward person to deal with. I think the team that he is leading will make a significant difference. They are the champions, across Government, of the refreshed national shipbuilding strategy. Of course, it's early days; it has yet to be tested seriously. But all the indications that I can see are that they are taking the remit seriously; they are doing the job of work; they are holding the different Departments together; they are delivering or starting to deliver on this 30-year pipeline of work; and they are challenging some of the assumptions around procurement.

For me, the two major things are these. There is the creation of the Shipbuilding Enterprise for Growth, which is an evolution of MEWG. But, for the first time, we have got a seat on that body. I am the voice of the workforce on SEG. It's a cross-industry body. The major companies, the trade associations—all elements of the maritime industry are sitting around the table with the National Shipbuilding Office and, significantly, with the people responsible for procurement in DE&S.

We have had two meetings so far; the second one was yesterday. Let's just say they have been spicy and there has been some disagreement—as you might expect—mainly led by me, about procurement policy and interpretation of the strategy. But, for the first time, I am actually in the room with the people that are making the decisions.

It has been really, really difficult up until this point to actually meet the individuals, put a case to them, express views and argue with the views that come back in response. This has provided that platform. I am optimistic that, given the direct debate we are now going to be having, we will be able to put our concerns very clearly, test the assumptions that have been made, compare those to the strategy and ministerial statements and see whether they add up. If they don't, we have a route to raise that and have it addressed.

As Sir John said, the skills taskforce is also critical. It is at an even earlier stage, in that they have only just closed the application process. I understand that there were 60 or 70 applications, and they are looking at building a team of about 20 people from across industry, again with all the voices represented. I have argued from the start that the skills taskforce needs to be tied in directly with the shipbuilding enterprise for growth, because you can't have growth, greater productivity and competitiveness without addressing the skills issue, as Sir John said. That is a real positive step forward.

The refresh strategy talked about the home shipbuilding credit guarantee scheme. I think that is a positive step, but with a caveat, which is that the strategy said that they would guarantee up to 80% of any loan. Our competitors are offering guarantees of 95% to 100%. That will be an area for lobbying, no doubt, and I am sure that is going on at the moment.

All that is tangibly a step forward from where we were with the publication of the first shipbuilding strategy. I am really pleased and, like Sir John, positive about the fact that we have groups of people meeting. As you would expect with an industrial strategy group—I know that is not a fashionable term at the moment, but that is what it is—it is industry sitting down with the Government and trade unions, talking about what is needed to deliver this pipeline of work.

I am sure we will come back to this, but the two critical issues that are unresolved are about the importance of competition in procurement policy and what is going to happen with FSS. FSS is the gateway to the 30-year pipeline of work. If that contract is awarded abroad, we will see the industry start to shrivel in the UK, and we won't have access to the 30-year pipeline of work. For me and the members I represent, that is absolutely a life-or-death issue. We don't get the prize of a 30-year pipeline of work without the bridge to it, which is FSS. Those two things are unresolved, and those are the source of the arguments we have been having and will continue to have, I am sure. Overall, it is a really positive step forward. There are signs of a real implementation of policy.

Richard Powell: It is a great honour to be here representing the Society of Maritime Industries. My comments are based on the views of all the members of the Society of Maritime Industries; it is not just the views of one company, so I am quite confident that this is how the industry sees the national shipbuilding strategy.

Like my fellow witnesses, we see this as a step change—a quite significant step up. The most important aspect, from our perspective, is the significant improvement in relationships. The industry was involved from the early stages through the rich picture work, particularly through the Society of Maritime Industries but also right across the industry. That relationship has continued with the establishment of the National Shipbuilding Office. We have a very healthy and good relationship with Rex Cox and his team—his team are excellent—and that bodes well for the future.

That said, we have some concerns about one or two areas. First, the vision in the strategy was absolutely co-authored with industry, but we feel that the strategy doesn't encompass all the elements of that vision. For example, integration, design, test and evaluation are hardly touched on in the strategy, and they are important elements of the vision, because you only have success when you deliver all parts of it.

Like Ian and Sir John, we are concerned about seeing proof. The strategy talks about coherent Government policy, but this is about the actions. FSS is the biggest manifestation of that. The strategy talks about industry stepping forward. It is not sure yet—it has none of the surety from the strategy. We want to see action before it will really make the scale of investments called for in the paper. So there are two points there.

We also think that the exports are well supported. From my previous role in Australia, I think we slightly underplay just how much the Royal Navy is seen as the benchmark for navies around the world. It is a massive selling point. It was a big factor in the success in Australia and Canada. That is something we should really reinforce; it is so highly respected, and it wasn't until I went to Australia that I really appreciated what an important factor that is.

I also support the comments about skills. We have got to get that surety in the pipeline, so we can then get the investment and attract people into the business. They have got to see that there is definitely a job there for them.

The final point I would like to make is that we need greater clarity on the social value aspects—the strategy talks about 20% as a weighting factor. That is an awfully big factor in the decision-making process. What is behind that? We need some more clarity on that.

Q2 **Chair:** You just mentioned skills. What are the apprenticeship numbers looking like?

Richard Powell: I am not sure about the precise details on that. I couldn't answer that question, I am afraid.

Ian Waddell: That is always a chicken and egg situation, in that apprenticeships follow programmes. The submarines are not covered by this, but we have got a large apprenticeship scheme at Barrow as well. Where we have got firm orders on Type 26 and Type 31, and where those companies have the certainty of an order book going forward, then they also have the certainty to create skills academies to recruit apprentices.

I don't have the numbers in front of me for each of the yards, but we are talking thousands across the enterprise, based on those programmes. It is not without its problems. There is huge competition to get those apprenticeships and part of the problem we see is that there is a natural tendency from companies to take the most highly qualified people they can for those apprenticeships, and those people tend to come with ambition to do something other than the job they are training for in the apprenticeship.

That is something that we are addressing at local level, but it absolutely reinforces Richard's point about certainty. I am sure it is something we will return to. Certainty leads to investment, not just in the facilities in the yard, the techniques and the technology, but also in the people. One follows the other. If you have got uncertainty, it stops people being recruited. Why would you recruit apprentices if you don't know if you've got a job for them? The two things are inextricably linked.

Chair: One of the themes that has been coming through is about action following policies. That leads us to Richard Drax.

Q3 **Richard Drax:** Welcome, gentlemen. This question is linked to the recommendations, Sir John, and whether the Government have followed them or not. Is this refresh in line with the recommendations you gave the Government? Does it address those recommendations that were still identified as outstanding during your 2019 review?

Sir John Parker: I would say that the vast majority of the foundations we tried to lay in the '17 review have been built on in this strategy. As I said in my earlier remarks, the structure of ministerial committees and so on that has been put in place gives it the clout that it would not have had before. The industry committee that Ian referred to earlier—the SEG, I think it is called—is a means to deliver a lot of the issues around technology, investment and productivity, which are quite clearly key. There are many components to that, but the SEG seems to me to be a very good forum to debate these issues and it is, as Ian said, absolutely cross-industry. At the time I made the recommendations that every yard should produce a global competitive plan, there wasn't a total mechanism across the industry to deliver that, but that is now sitting in place. I would say the vast majority are there.

There are some recommendations that I have no means of penetrating from where I sit today, quite clearly, but they are more internal to the MoD. One area was recommending the change in governance within the MoD to provide a client contracting board, where the First Sea Lord sat with what was the Chief of Defence procurement. What is it called now? DE&S.

Q4 **Mr Francois:** We have another name for it, but go on. *[Laughter.]*

Sir John Parker: It's procurement—correct. The Chief sat alongside the First Sea Lord and finance was represented. Once it had been handed down a budget and timescale to contract and build, that board was empowered to do whatever trade-offs were necessary on the specification and design to make the budget. Therefore, it was in the customer's hands. That resulted in the Type 31 being ordered in around two years. That compared with 19 years for the Type 26.

That governance change was critical. What goes with that is the approval process inside the MoD. When you change governance, you need to examine critically the changes in systems for approval. Because a lot of people think they have the right to approve, or to do this or that. From what I could see, when I asked what the approval system was, it was a minefield. I certainly suggested that it should be significantly simplified. When I went back to examine it, work had indeed been put in place to do that, and I am not sure where that has got to.

Q5 **Richard Drax:** I think you are saying that it has made a major step forward, but there are still omissions, and the omissions mainly seem to be bureaucratic ones. I think you said it is just too complicated.

Sir John Parker: What I am saying is that I have no means of knowing where that recommendation has finally got to, but I think progress has definitely been made inside the MoD. Certainly, the finance director who was there at the time made a commitment. Indeed, when I went back in 2019, there was work already underway with outside consultants. Where it has finally ended up is what I can't tell you.

Q6 **Richard Drax:** Ian or Richard, have you got anything to add to that?

Ian Waddell: I have a couple of things, thank you. I think Sir John is referring to what we now call intelligent customer functions. That is potentially a work in progress. I made the point the last time I appeared at the Committee when I talked about the carrier alliance, and the stress that I had seen senior executives of those companies placed under to deliver that project, and the cost element and everything else that was being enforced by the MoD.

I thought that was a brilliant example of an intelligent customer working in partnership with industry to deliver something that is world-beating, when you look at all the statistics. The price per tonne of our carriers is comparable with India. Everyone else is far more expensive. To me, that seemed a successful example. I am a little exasperated and at a loss. I don't know why it is not being replicated and brought forward on to other programmes.

The other critical element of Sir John's reports, which is consistent across them both and with reports that RAND carried out over the past 17 years, is the importance of collaboration in the UK industry: distributed build strategies, specialisation of yards in particular areas, and, where appropriate, UK-only competitions to keep companies lean and on message. For me, that is the major unresolved issue in the refreshed national shipbuilding strategy.

I made the point last time and in written evidence that we are really disappointed that we have ended up with the MoD keeping its options open on all procurement, on a case-by-case basis, with everything from single source at one end of the spectrum to full international competition at the other. We have just spent some minutes talking about the importance of certainty. If you are uncertain at the end of each programme whether you are going to get a single-source contract or be in an international competition, that inhibits investment.

Any shareholder-owned business is going to say, "That is a level of risk that is too great for us. We can't sink hundreds of millions of pounds into this facility, these skills or apprentices, if we don't know whether the tap is going to be on or off at the end of this five or 10-year programme." For me, that is the area of debate. That is the thing we are going to concentrate all our time and energy trying to resolve and decipher, using the refreshed shipbuilding strategy, because, to be frank, the question isn't answered in that document.

Q7 **Richard Drax:** Richard, anything to add?

Richard Powell: I have a couple of points. There is a second-order effect from the implementation of the new strategy. It is quite remarkable how much industry is talking to and between itself. It is really encouraging a debate between the trade organisations and between companies, which is very alive in working out how they can contribute to the national shipbuilding strategy. That is a very positive element.

There are a couple of other areas that are now relevant. Ukraine has really brought into stark relief the whole issue of sovereignty. It is such an important element, which we have slightly pushed to one side previously. What do we really want from a sovereign capability in the UK if we are going to have a proper defence force? While the shipbuilding strategy is much broader than just defence, it is still the core element. It is the heart of the endeavour.

There is one other area that really concerns members of the Society of Maritime Industries: the use of non-disclosure agreements. I spoke earlier about the importance of dialogue and how that was improving. However, quite often, we find that we are stifled from talking to each other and having a debate because those agreements are quite commonly used, and we are held to account and we cannot talk among ourselves. If we are to have a really active debate, we shouldn't be stifled quite so early in some of these competitions.

Q8 **Mr Francois:** Sir John, it is great to see you and your colleagues here this afternoon. You are very welcome.

Sir John Parker: Thank you very much.

Mr Francois: The last shipbuilding strategy led to major changes to the governance of ship procurement in the Ministry of Defence. Part of the aim of that was to ensure what some have called greater pace—grip—on projects. On the plus side, to follow on from Mr Waddell's comments, we have a more regular drumbeat now: Type 31, Type 26, Type 32; eventually, I think, Type 83, to replace the 45. There is now clearly a long pipeline of work, which is very encouraging. On the downside, it is now taking quite a long time to build these ships, not least at a time when the Committee is concerned that Type 23s are being taken out of service, and it is a long time for the Type 26 to come in and replace them. We understand that the Type 26 has slipped a further year. Why is it taking us 11 years to build a frigate?

Sir John Parker: I don't think it takes 11 years to build a frigate, but—

Mr Francois: It is for the Type 26.

Sir John Parker: With the Type 26, there was a very long gestation period of 19 years. If you examine the timescale, a lot of it was due to the way finance in the Treasury—that is, finance in the MoD—works, in that it is a complete cash pool. If you're running short of cash for ammunition, or whatever, you pull it out of projects. The carriers were delayed in the middle of build by x number of months. Secondly, there were areas in that 19-year programme that were accelerated by two years and then, one year later, decelerated by two years. All that yo-yoing was a big disturbance. Even when I was examining the Type 26, which was about to be contracted, there were still delays in getting it. Pace is absolutely critical. I underlined that at the time.

What has happened with the Type 23 is that they are going to have to be in service for around 34 to 35 years. That is costing a fortune. There are massive refits. Even the steel plating has to be renewed to a large extent in some parts of the ship. So you have very expensive refits and very expensive maintenance. You are burning cash at that end because you didn't order in time. That is where the Type 31 is part of the rescue package. The 31s took only two years to order, under a modern governance system, where the critical thing is to have an assured capital budget that is not going to be interrupted because you're running short of cash for ammunition, or whatever. Capital budget should be assured. In fact, the annualisation does not fit with a modern contracting policy either.

Q9 **Mr Francois:** I'd like to follow on from that, and we might want to bring Mr Waddell in as well. Don't misunderstand the Committee: the Type 26 is literally a world-beater. In terms of the prosperity agenda, we have had great export success with Australia and Canada. As a Committee, we are impatient to see the ship come into service.

Sir John Parker: Of course, and covid has wreaked havoc on supply chains, steel mills and everything else. I haven't yet been to Rosyth to see the Type 31, but I understand the Committee may have visited. Is that correct?

Q10 **Mr Francois:** We did. We saw the plates being laid for the first of class.

Sir John Parker: An ex-shipbuilder in this country who worked for me previously, and who I had not heard from in a long time, called me the other day and said, "You've got to get to Rosyth. I've just been and I'm absolutely over the moon at the way they are going about the construction of this Type 31. They have invested quite heavily in additional facilities and so on. In my view, it could be a world-beater."

Q11 **Mr Francois:** So we hope we are a good omen. From memory, we visited on the Tuesday and when Babcock executives gave us a very upbeat presentation, they mentioned they were hopeful for an export opportunity to Poland. The deal was announced on the Friday. We hope, as I say, that we were a good omen for them. They may even ask us back.

On the fleet solid support ship, going back to Mr Waddell's point, there have been endless delays to the programme, which I think have been almost exclusively the fault of the Department and not of industry. We must catch up now in order to fully exploit our carrier capability. Once those contracts are awarded, industry is going to have to build them quickly and to a very high standard. Mr Waddell, are you confident that the industry can respond in time?

Ian Waddell: Yes.

Q12 **Mr Francois:** Would you like to say a bit more about why the contract is so important?

Ian Waddell: I will deal with the Type 26 first, then come back to FSS. I have been a full-time officer in this industry for quite a long time now. I was the national officer at Unite for a period a few years ago when we made 1,840 people redundant in the shipbuilding industry in the UK. We closed the Portsmouth shipyard and consolidated everything into Glasgow on the basis that there would be a world-class frigate factory to build 13 Type 26 ships. Our bid was immensely critical of the chief executive of BAE at the time. It took the decision in the end that it wouldn't use its own money to fund the refurbishment on the Clyde; it wanted to take that from the contract. There was a disagreement with the MoD. To cut a long story short, that world-class frigate factory didn't get built.

In the meantime, the number of Type 26s was reduced from 13 to eight and split into two batches of three and five. The whole programme was slowed down at the MoD's behest. Meanwhile, Australia bought Type 26 as the Hunter. Australia does have a world-class shipyard. Because of covid, we have only seen a fly-through of it and a visualisation, but there is a training school there.

To answer your specific question, I was up on the Clyde a couple of months ago, being shown around the ship, and I was shown the problems they had with weld deformation. If you think about the steel at the base of the ship compared with the steel at the top of the ship and the difference in gauge of that, it is an extremely complex structure. They have a big problem with the welds deforming, because of changes in temperature and the climate. They are building it outside, in Glasgow, so it is not a great surprise, to be honest. They have picked that up in Australia. They are using cutting-edge production techniques to anticipate the weld deformation and take it out before the welds are done. It is one of those, "Look at what you could have won" situations. We could have built that world-class frigate factory, which is now, by the way, in hand. It has a planning application. There are problems because there is a very old building with some wrought iron in there. It is a world-class thing.

Q13 **Mr Francois:** To be fair to them, they showed us all that, and I think they are as frustrated as you are.

Ian Waddell: You can imagine. It has been a long time in gestation. All I can say on that is that actions have consequences. The action that was taken not to make the investment in the world-class shipyard and to reduce the number of ships and spread them out over a long time created the scenario whereby we hadn't got the volume or the pace, and ended up with problems as a result. We are victims of those decisions, which is why the pipeline, the certainty and the drumbeat of work are absolutely critical. I keep talking about that.

On FSS, I have asked the question because one of the myths that is emerging from DE&S is that the shipyards are full, Rosyth is full, the Clyde is full and we cannot build these ships alongside Type 26 and Type 31. That ignores the fact that Cammell Laird are hanging on by their fingernails—I do not think I am breaking any commercial secrets there. They are struggling for work. We have A&P Tyne; Falmouth are doing bits and pieces of work. Harland and Wolff, as you know, closed and reopened. Appledore closed and reopened.

The rest of the industry is struggling at the moment; it does not have work and needs the work. A distributed build would be an absolute godsend for those shipyards. I asked Babcock directly this morning, before I came here, "If I am asked about whether the shipyards are full and whether you can build this, can I say with confidence that yes, you can?" The reply was, "Yes, absolutely you can, because that is what we did with carrier." The total workload for carrier is higher than when you put 26, 31 and FSS together. Yes, absolutely, I am confident that the UK shipbuilding enterprise can build Type 26, Type 31 and FSS concurrently.

Q14 **Mr Francois:** One more question and I will hand back to the Chair, as I am conscious that others on this Committee know more about FSSS than I do. On Type 26, having visited as a Committee, I am sure that these problems can be overcome.

Ian Waddell: Yes.

Q15 **Mr Francois:** But with regard to the fleet solid support ship, if you are going to build in that distributed way that we did the carriers, that can take quite a long while. The MoD has faffed around over this competition for years—that is not industry's fault but the customer's fault. If they were to decide to go down that route, can we do that in a way that does not lead to material delay in the programme? I think that is quite an important question. What is your view?

Ian Waddell: Look, I can only—

Q16 **Mr Francois:** Do you understand the point?

Ian Waddell: I absolutely understand the point. I do not work for the companies; I represent the people who work for the companies, and I do not work for the MoD, clearly. It takes two to tango.

Mr Francois: If it reassures you, we don't work for the MoD, either.

Ian Waddell: I know that, but it takes two to tango. It is back to this intelligent customer question. As Sir John said, you all remember the debacle when we were going to put catapults on the carriers and we wasted all that time and money with the design to cut the top off and re-weld ramps and all sorts. It was an absolute shambles. You keep seeing episodes like that, where there is a change of mind at some point along the way. If we can get a fixed design, which I hope will be a UK design, I am confident that we can crack on with that.

I would make the point that we are not just talking about FSS. In the strategy we have six multi-role support ships; we have a landing platform and potentially a casualty-receiving ship, and there are other vessels in that pipeline that you could look at—a ship of that size and design could fit the bill. We could be talking about a production line here of nine or 10 vessels, which will create massive economies of scale. Anyone in shipbuilding will tell you the first of class is the most difficult—it is the one where all the time and energy and the delays go, because they are bespoke.

I don't know. All I can tell you is that the industry, compared with where it was before carrier, has learned a massive amount. There has been a huge improvement in productivity and competitiveness already in the industry. I am confident that, if the decision is made in a timely way, the UK industry will step up and can build a class of ships that not only would fulfil all those roles, but would be exportable.

Mr Francois: There is an old military saying: paralysis by analysis. I think with FSSS that applies.

Sir John Parker: May I make a quick comment? Ian used an important word—he said shipbuilding enterprise. I think you queried whether distributed building would delay; in my view, it accelerates, for the simple reason that you disperse workload to different centres. You assemble it in one place and the speed of assembly is massively increased. Your cycle time of build within the yard on assembly is increased. That is why I recommended a virtual build in industry if you have a big series of ships to build.

Q17 **Mr Francois:** That is a very important point. Mr Powell, do you want to add anything?

Richard Powell: I do. On the enterprise point, in some ways the title of the national shipbuilding strategy is slightly disingenuous, because it is the whole enterprise. That point is made very clearly in the vision statement. It is only by looking at the whole industry and enterprise that you really see the improvement. That brings me to my point about that vision statement, which spoke about the design, build, integration, testing and evaluation. We tend to focus very much on the build aspects, with a bit of design in there, but you do not have a capability until it is properly integrated, trained and generated. I think one of the changes that we would like is for the integration, testing and evaluation—which, as we heard earlier, is where a lot of the money and value is—to be thought out much earlier in the process, because it tends to be a bit of an afterthought.

My second point is about ambition. When I was working in Australia and was involved in the sale of frigates to the Australian Government, there was in the early stages very little ambition. To deliver this strategy, we have to be ambitious. We have heard some examples today of people finding excuses or reasons not to deliver it. We should focus on how we are going to deliver it and where the positives are, because we have a fantastic opportunity here, and it is by working together that we will deliver it.

Chair: Thank you very much. Ian Waddell said that he represented the people who worked for the companies. In my experience, they usually know a lot more about how the business runs than the management of the companies, but that might be a prejudicial view. I call Kevan Jones, who chairs the all-party parliamentary group for shipbuilding and ship repair and who has taken a great interest in this subject.

Mr Jones: Some of it has already been covered by Mark.

Mr Francois: Sorry.

Q18 **Mr Jones:** It doesn’t matter; I will forgive you eating my sandwiches. The main thing in your strategy, Sir John—of which I was very supportive—was very simple: a continuous pipeline of work through the yards. To me, it appears that that is not what we have—yet.

Another factor is where we go next, post 2030—it is very crammed into the 2020s. Do the whole of Government get this strategy? We are talking about FSS and large ships. I have been pressing the Home Office, for example, which is going to purchase new Border Force cutters, to speak to industry yards that can do that work, but the civil service has already made the decision that the contract will go to Holland—it is designed to go to Holland. Has the penny dropped with civil servants and Ministers that, for the whole of industry, any procurement—be it Border Force cutters or FSS—should go through certain steps, the first being that it should go to UK yards?

Sir John Parker: I think that is clearly one of the encouraging things in this strategy. If the mechanism that is described in it—the inter-ministerial committee and the National Shipbuilding Office—actually works in practice, all inquiries within Government for new ships should go through the National Shipbuilding Office.

Q19 **Mr Jones:** They are not, though, John; that is the problem. Look at the Home Office's specification for their Border Force cutters. You read that and there is only one clear winner out of it: Damen from Holland. The yards I have been speaking to are being are told that they have been given the cold shoulder. Has the penny dropped that—like in your very forceful message in the shipbuilding strategy—there should be a whole-of-Government approach? No other country would do it this way.

Sir John Parker: Taking what is written here at its word—I did say that deeds, not words, would be the acid test—the mechanism is quite clearly there for any Department or any shipowner in the UK to approach that office and arrange for a competitive bid and design from any UK yard. Those cutters, for example, would be absolutely ideal for Appledore. Appledore could be opened up again very quickly; there is a workforce around there that moves between your friends down in Devonport and Appledore, and they would be glad to work at home rather than having to go to Devonport. That facility could quite clearly be opened up for cutters like that.

As I see it, the National Shipbuilding Office is absolutely the co-ordinating centre. Of course, Government Departments that have had money to put into their replacement vessels—there are quite a few of them when you see it all listed out here—should be compelled to call into the shipbuilding office. I would be very surprised if the shipbuilding tsar was told that the Department for Transport, or whoever, is now going off to Holland without any calling into the shipbuilding office. I think there would be fun and games; if I were the shipbuilding tsar, there certainly would be.

Q20 **Mr Jones:** Can I just say to you, that is what they are doing. Add to that the other area that I have been looking at, which is the demand for offshore wind support vessels. Now, clearly, there is a lot of Government money and other effort going into building the turbines, but to me, the Government are not focused on the question around the—I think—150 offshore wind support vessels needed, or on any dynamic in terms of saying that that is an area in which UK yards should be involved. I think your strategy was very good, but actually I think there is a real problem in Government—I don’t know where it is in terms of civil servants—where they are still thinking, “Well, let’s just do what we’ve always done.”

Sir John Parker: Well, if this strategy means what it says—colleagues can have their views here—that shouldn’t happen in the future. The thing that has to be watched out for is that there are, from what I have seen in the past, very different evaluation processes in different Government Departments when considering the replacement of vessels. They hire a lot of consultants that do many, many case studies that take two to three years—sometimes, I think they think they are building a nuclear submarine—and those decisions could be made so much faster.

Departments don’t realise that, by delaying, you are burning taxpayers’ money, because, especially now, in a period of high inflation, you catapult the order build into a higher period of inflation. Anybody going to a shipyard for a new ship now, compared with two and a half or three years ago, would probably pay—if I put a finger in the air—30% more. Steel went up 50% this year and copper has gone up probably 80% over the last 18 months, so all the componentry raw material is massively inflated. Therefore, the speed of getting things ordered and done is critical, and paralysis through analysis is not a great skillset to deploy.

Q21 **Mr Jones:** Another example I want to give to you is that the MoD, last year, procured a £10 million special-purpose vehicle for a project. I raised it on the Floor of the House and said, “This contract is going to Holland, isn’t it?” The response was, “Certainly not; it definitely isn't.” What happened? It went to Holland, because if you read the specification, the only yard that could actually do it, because of what they’d actually done, was Damen in Holland. Okay, a £10 million contract is quite small in the great scheme of things, but for a lot of small yards, a £10 million contract would have been a very welcome boost to the skill base and profit of those companies.

Sir John Parker: Holland certainly has a big record in dredger technology, which is not so present here, but I think the fundamental message here—which we on this side of the table probably share, and which I did draw attention to—is that volume is a critical component of absorbing overheads and driving productivity. That is an absolute override, in my view, when making judgments about where you should build, rather than just a sheer cash outlay for the contract.

If you really are keen to build a competitive shipbuilding enterprise, you have got to load it. That is the fundamental reason why most developed countries build all their grey ships in their own country; in fact, I do not know one that does not. It is a fundamental volume issue, and it is not a debate. They will hold their yards to account, of course, and there are ways to do it, but do you want to make the place competitive or not? If we really make it work, you have that grey work and then you have this layer of commercial work. If the Department’s procurement processes were harmonised, you could order those things on time and boost the yard work and supply chain.

Mr Jones: Ian Waddell.

Ian Waddell: I have been itching to get in, as you can probably tell from my body language—this really exasperates me. It is a bit of a union full-time officer club we have here, isn't it?

Mr Francois: We never noticed.

Ian Waddell: I'm sure. I became a full-time officer in 1997, and I have covered the manufacturing industry since then. For years and years, I have been frustrated with Government Departments telling me, "We can't do that because of European regulations. We have to compete it." I remember being in London a few years ago. We were just closing van making in Luton. I walked down a London street and there were 25 Metropolitan police vans lined up—every single one a Mercedes-Benz. I thought, "This is ridiculous. Why are we doing this?" And here we are again.

I don't know whether you ring a bell these days or get a prize if you mention the word "Brexit", but where is the Brexit bonus? These are the questions that my members are asking. They work in coastal communities, places in the north of the country, and places on the fringes of the country that have been left behind. They believed that the whole reason that we left the European Union was so that we were free to make these decisions without having to compete everything and offer an opportunity to the rest of the world to build stuff that we build in this country. I think there is a fundamental question there: why are we doing this?

You mention offshore wind—we were briefed about this yesterday at the SEG. It is actually 220 installation vessels that will be needed for the offshore wind that the UK wants to build, and we were told that the USA has already said that, in order to install USA-built wind turbines in USA waters, you must operate a USA-built ship. I look at this and go, "Why the hell aren't we doing that?" If we have to build 220 vessels, there is the technology in this country to make them hydrogen powered—they could be zero-emission vehicles. We have enough volume there to drive a world-beating industry. We would be building the wind farms that we are going to build anyway, we would be fuelling the shipbuilding enterprise, and we would have a product there that we could export overseas. Why wouldn't you do it? I cannot understand it. This is the thing that really exasperates me.

Q22 **Mr Francois:** Just on a factual point, under what used to be article 226—I think they renumbered it—the provision of "warlike stores" was always exempted from normal EU competitive regulations. I don't think you could argue that a police van was a warlike store. You certainly could argue that a warship was. We always had the right, unilaterally, to take our own decisions. Under that article, we were perfectly legally entitled to override EU competition policy. I used to know a lot about this. Legally, we could always have bought unilaterally if we wanted to. That competition law did not apply to military equipment—that has always been the legal position.

Ian Waddell: I agree. I am not talking about military equipment here, though. I am talking about civilian commercial vessels that will install offshore wind farms.

Q23 **Mr Francois:** If you are talking about warships and such, just for clarity—

Ian Waddell: Listen, Kevan took me down a rabbit hole—I am sorry, but I followed him. I agree: that exemption was always there, and we have used it. What I am saying is that for everything else, we followed the rules slavishly while every other country in Europe seemed to build their vessels in their yards. I don't know how they did that.

Chair: You are absolutely right, and that brings us to Dave Doogan.

Q24 **Dave Doogan:** Good afternoon, gentlemen, and thanks very much for your evidence so far. What conceivable productive and positive role is there for international involvement in fleet solid support ships in the context of productivity, skills and investment in domestic yards?

Sir John Parker: I am not in the middle of it—I have to say that—so I will speak from my general knowledge about the industry and how this should be tackled. In my view, if you adopt a virtual shipyard policy—you build blocks, as we did with the carrier, but you probably do it in a more concentrated way here—and you have three ships of this nature to build, you will have three sets of complex bows and three sets of complex sterns in one yard. The engine rooms could be built in series—three, one after the other in the yard in blocks—and then taken to the assembly site. As Ian said, there is a lot of capacity around the country. Cammell Laird is seriously in need of work and has massive capacity to do it, so in my view, there is no reason why. We have the technical capability; I have no doubt about that. We quite clearly have the capacity, and we have the assembly capability. There may be some stress on skills.

I did the review for the MoD on whether the carriers were ready to be contracted or not. I was hounded by people saying, "There's no way you should agree to that, because there is no way that this country can build them. They are too big. They are too complex" and all of that. The industry confounded it. I think we've got the capability, and there is no question in my mind that, with the right project management in place, it can be designed, built and commissioned in this country. I see no reason why not.

Q25 **Dave Doogan:** Again, sticking with fleet solid support, isn't it almost a lack of good faith on the part of the MoD as a customer, if you look at what has happened with Type 26 and Type 31—the investment that those firms have made in facilitating the manufacture, design, build, deployment and development of those vessels? We are talking about the whole enterprise. That has been a significant investment of private capital on the part of those companies, and they have made a similar investment in their people, in apprentices and in upskilling. Don't they deserve to have the threat—because it basically is a threat—of having some of this work carried out in foreign yards taken off the table?

Sir John Parker: I am not close to how much investment has been made in any of these yards now, to be honest. Ian made some comments earlier on this. I do understand that quite a lot of investment has gone in around the Type 31, only because I heard it the other day.

On the fleet support ships or any other large ship like that, investment will be needed, and I do not think this is just an MoD decision: I think it is Treasury and MoD. A decision ultimately has to be made, and this strategy points the way. The acid test will be whether industry can be confident that the words that are written here will actually turn into deeds. Without doubt, confidence has to be built around any strategy. It is the same in any large company: when you put in a new strategy, you've got to sell it hard to people, but above all, people have got to buy in and be confident about the integrity of that strategy—whether it will be delivered, whether the top people are willing to support its execution, and so on. I think we will be at that stage over the next couple of years. Will this strategy deliver and cut through some of the frankly surprising decisions that were made? For example, I never believed that the tankers that went to Korea were not at dumping price.

By the way, I want to commend the authors of this strategy because they have noted the extent, and it is the first time I have ever seen that in a Government document. They have admitted, or have commented on, the extent to which a number of overseas shipyards are heavily reliant on Government support and intervention. Now, that is a huge acknowledgment and when you mentioned it before, the water ran off the duck's back. In this case it is there in print, and I believe that that will be an acid test as to whether or not— Why would Britain support dumping prices? Why would we support Government intervention in another country and not our own? Especially in a post-Brexit world, I think we are in a very different position where we have to really start looking after ourselves.

Q26 **Dave Doogan:** To that end—I will get you in Mr Waddell, in a minute—do you believe, as many of us on this Committee do, that Defence Equipment and Support as a procurement agency sometimes has acute difficulty discerning between price and value?

Sir John Parker: I am not a procurement expert. I am a very simple guy, at the end of the day, who realises that we always have to produce a competitive price from our yards, which means you have to have a competitive cost base, and there should also be a good alliance between cost and price in order to fuel investment. On procurement, screwing yards down to the narrowest possible gross margin is not a great idea. You have to fuel investment.

Ian Waddell: In answer to your first question, brutally, the role of international competition is to drive the price down. That is the simple approach. I think the view of the DE&S is that they believe, based on Type 31, that competition drives productivity in some way and that the industry in the UK could perhaps be accused of being lazy or fat. I don't know what the logic is.

Anyone from industry will tell you—hopefully, Richard will confirm this—that industry in the UK isn't afraid of competition. We have won competitions. We won Type 26 and we won Type 31 abroad, in other markets. Competition itself is not a problem. The problem is that the competitors—the other three consortia, apart from Team UK—are, on the whole, backed by either directly state-owned or state-funded companies.

I have said it repeatedly, and I will say it again publicly, that there is a real danger and I am really worried that one of those companies is going to buy this contract. They are going to put in a price so low that it will outweigh any social value considerations and anything else.

The reason they will do that is twofold. First, as I said, it is not just three ships. This could be 10 ships, it could be export potential or a platform that could be sold across the world, so there is great commercial value in that. Secondly, if they have a chance to knock Babcock and BAE out of the international market in some way, they would dearly, dearly love to do that.

The problem is, and this will always be the problem for us, our industry is competing with one hand behinds its back, because it is not a level playing field and the same terms do not apply. I have even heard people welcome the fact that state-owned companies are competing, because that will put even more competitive pressure on the privately-owned UK companies. It's an old adage—the hint is in your question—but are we dealing with people who know the price of everything and the value of nothing?

My vision for this is that the military work—the naval and RFA work—could be the spine, the pipeline and the drumbeat that keeps the shipyards employed. That leads to investment, apprenticeships, and then it leads to the ability to compete in commercial markets. That, coupled with the building of 220 vessels for the installation of offshore wind, brings us into new technologies. You create a virtuous circle, which is driving itself forward. It is successful in the export market. Huge revenue is coming back. There are taxpayer refunds through tax and national insurance, because people are working in this country. Why would you not do that? If it is based on the difference between £1.5 billion for three ships and £1.3 billion for three ships, that is completely false accounting.

Dave Doogan: Mr Powell?

Richard Powell: I absolutely support what Ian says. Certainly the members of the Society of Maritime Industries agree that the obsession with price shows the lack of understanding of value—social value. It is so important to understand what this really means—what we really get back if we buy in the UK or buy abroad.

Coming back to your earlier question about international involvement, industry sees the FSS as the litmus test for the credibility of the national shipbuilding strategy. One of the things the national shipbuilding strategy refresh has done is make industry talk much more among themselves, because they have a common understanding of the Government's position.

So they are absolutely looking at this, and if it does go abroad, the strategy will probably lose all credibility. It is the first test—the building block. The size of the contract will enable industry to make the investments, but if it does not happen, there could be massive delay before you see that likely to be taken forward again, and making the business cases within the industry will be really difficult. That is why it is so important.

Q27 **Dave Doogan:** Finally from me, how do we use exports to smooth out peaks and troughs, such as they are, specifically in defence orders? How do we increasingly look to produce something that is exportable? Take for example the Type 31; many more countries can operate a general-purpose frigate of that sort than can operate a much more complex warship. Should that be part of the thinking in the MoD and DE&S as they invest in the industry?

Richard Powell: It comes back to the confidence piece and the surety. If you are absolutely confident in what your UK baseline production will be, you can make the investments to give you that. You do need spare capacity to meet the export potential. So it is possible, but it is confidence and surety that absolutely underpin all of this.

Chair: We have talked about drumbeats, and we need to up the tempo of questions and answers. As you may be aware the Scottish Affairs Committee is also conducting an inquiry into shipbuilding in Scotland. That is why today we are pleased to welcome a member of that Committee, Pete Wishart, and I invite him to ask the next question.

Q28 **Pete Wishart:** Thank you ever so much, Chair. It is a real pleasure to be here today. You know of our long-term interest in this issue—indeed, we are embarked on a series of inquiries into defence, most notably shipbuilding, on which we have just put out a call for evidence. In fact, I think some of you have replied and given us the evidence we require, so thank you very much.

We have had a good look at the refreshed document, but it barely mentions the rest of the nations of the United Kingdom. There are a couple of references: there is a National Shipbuilding Office with a hub in Edinburgh that is about to be opened, and a statement that the Government will fund a cross-sectoral analysis of maritime enterprise in Scotland.

Given how important shipbuilding, particularly military shipbuilding, is to Scotland—we account for something like 23% of the turnover of the whole sector, 7,500 jobs depend on this, and it contributes significantly to the Scottish economy—don't you think that Scotland and the other nations of the United Kingdom might possibly have merited a bit more attention in the refreshed strategy document?

Sir John Parker: If the question was to me, I would say I didn't write the strategy. I wrote the original one, but I did not do the embellishment or upgrade that we have here. I come back to the point that whatever is discussed here, this is a most welcome development. Scotland has always played a very important part in shipbuilding, and now there is potential, with the Type 31s being built up there and the news today that they have just got the order to maintain the aircraft carriers in Rosyth. All of that is good news for Scotland and is to be welcomed, but I cannot comment on the volume of print that has been assigned to Scotland in this document.

Q29 **Pete Wishart:** Do you see ongoing momentum here, Mr Waddell? Does this provide the drumbeat of activity that the initial report supported?

Ian Waddell: It could. The whole point is that there is a fork in the road ahead of us. In terms of the column inches, if I can put it that way, that Scotland has got, there is a breakdown, nation by nation, in the pipeline of work section, and there is quite a lot of commentary about ferries and other types of vessels that Scotland will need, and recognition of the importance of working hand in hand with the devolved Administration in each of the countries. But you're absolutely right.

I mentioned earlier the restructuring of UK shipbuilding with the closure of Portsmouth. That was all predicated on the Clyde being the centre of complex frigate building with this world-class factory. Rosyth integrated the carriers; they now have Type 31. That was recognised to be the centre, from a UK point of view, of integrating and assembling these large-scale vessels. They have the facility for that.

If the vision that I have outlined was followed through, I could see expansion, certainly at Rosyth. I think they have room to expand with investment, if there was certainty of orders. I think it could be a really, really bright future. Notwithstanding the problems that we have had at Ferguson Marine—there have been all sorts of problems with the vessels. Again, changes of specification, changes of ownership—there have been all sorts of things. Everything has just conspired—but I have been up there and it's a brilliant, world-class workforce. I am sure that they will finally get those issues sorted out and I think there is real potential—

Q30 **Pete Wishart:** On that, I listened carefully to your comments about what transpired at Govan and I think we could pretty much all agree with that. My Committee is going to be visiting Scotstoun and Rosyth in the next few weeks. What you talked about in your evidence—I don't know whether it was in reply to Mr Jones—was about what was missed out on, as far as a golden opportunity was concerned, at Govan. Is there any chance—given what we are seeing in Rosyth, that the almost frigate factory that is emerging there—that we could lose this again? Is there anything that you have seen in the original document from Sir John, or the refresh, that would give you any fears that that might come to pass?

Ian Waddell: There is a fear. Everyone is talking about Type 32 as if it's nailed on at Rosyth, but that is not sure at all. We don't know what the procurement process will be. And the MoD, as I said earlier, has in front of it the full range of options, with single source at one end. Obviously, you would say, "If Type 31 is a success, why wouldn't you go on to build Type 32 at Rosyth?" But they might not choose to do that. They might choose to go the other route and have full international competition, at which point, if you're Babcock and you have invested in that yard, the skills academy and everything else, the potential for growth is evaporated. And all the supply chain and everything else that flows from it shrivels up as well.

These are the real-life consequences of these decisions. That is why I keep coming back to the procurement policy. That is the spine in the heel of all this. It is the thing that you keep standing on, that keeps causing annoyance and frustration. We need to get that sorted out, and obviously we are going to be working on that behind the scenes as well as publicly. Any influence you can bring to bear on DE&S to resolve that would obviously be welcome. That would cement the future for yards like Rosyth.

Q31 **Pete Wishart:** I wonder, Mr Powell, what you think. Are we going to meet that steady drumbeat that has been—

Richard Powell: I think one of the things we have to do is really understand what our strengths are in the national shipbuilding endeavour in the UK. And I think Scotland is absolutely one of the jewels in the crown. We have both the capabilities for production and an incredibly skilled workforce. It's about really making sure that we preserve that essential element of all this. That is really the key point there, I think; it is just recognising how important it is and how world-class it is.

Q32 **Pete Wishart:** Our report on the estate in Scotland will be produced in the next few weeks, once we have Committee agreement. One of the things that came out of that was military spending in the SME sector across the nations. I think that we account for something like 2.5% of all military spending in SMEs. I think only Wales, Northern Ireland and the north-east of England are below Scotland in terms of what financial support is secured for SMEs. I know levelling up isn't on your agenda, but what does that say about disparities across the United Kingdom, and what do we need to do to properly address this to ensure that all of the UK benefits, in the SME sector, from some of the spending that is going into the sector? Maybe you, Mr Waddell, could help us with that one.

Ian Waddell: That is a really tempting rabbit hole for me to dive down. Let's just say there is a whole series of large-scale projects that the UK MoD has procured recently that have gone to overseas companies—largely, American companies. They have not all been a great success—not for the platform that has been procured and certainly not in terms of UK content. This is a mistake that we keep on making: being seduced by what appears to be a cheap set of American kit but is 100% designed, built, maintained and upgraded in the USA. There is zero UK input on that. Every time that decision is made, another SME goes to the wall because they haven't got work. As I said before, actions have consequences, and if you keep buying stuff from abroad, you clearly don't keep putting the seed and the fuel into your domestic industry. I don't know whether Scotland has suffered more than other parts of the UK—I am not close enough to the detail to see that—but the general point is clear: if you procure onshore, you support businesses, jobs and communities onshore.

Q33 **Pete Wishart:** We had SMEs in front of our Committee and asked them about their experiences of dealing with the MoD, and none of it was particularly positive, it has to be said. They found great difficulties in engagement and in procuring the contracts they require. I don't know what your experience of that is, Mr Powell, given that you are involved in all this, but it was not a good story at all.

Richard Powell: This is where I think the trade associations have a really big role to play. The membership of the Society of Maritime Industries captures 90% of the value of the UK industry, and that includes the vast majority of SMEs. It gives them a vehicle that allows them access to these larger procurement opportunities. Suddenly, over the last two years, we have seen increasing interaction between the frontline commands, the Royal Navy and the Society of Maritime Industries, and increasingly with DE&S, which runs industry days.

I think it is one solution, but there are also longer-term enabling contracts. It is a problem that is recognised, and there are steps in place to do it. It is still work in progress, and this is going to be a key focus in our dialogue with the National Shipbuilding Office. It is not just about making sure that the contracts come to the UK, but about how to get other parts of the value chain properly involved in this. To go back to my point at the beginning, it is easy to focus on shipbuilding, but there is an awful lot more to this than just that part.

Pete Wishart: Thank you for the opportunity, Chair.

Chair: Thank you. I imply no criticism of the panel or of colleagues, but can we crack on for the last three questions?

Q34 **Mr Jones:** Richard, you raised social value. It is four years since the Dunne report, and I have asked the MoD umpteen parliamentary questions about how they evaluate social value, in terms of contracts. We had the NAO before us earlier this year, and even they scratched their heads about what this 20% is. I think they are going away and doing some work on it. Can you enlighten us?

Richard Powell: No, is the short answer to that, and that is what our concern is. It depends on what criteria you choose. At the moment, there are five Government areas, but Defence only chooses three of those. Is DE&S going to choose five? Which are they going to be? How will they be balanced? That is such an important formula. When contracts can be won or lost on half a percentage point and you are talking about 20%, this is probably the biggest factor in deciding who will win those contracts, and we don't understand what the criteria are, unfortunately; there has been no communication about it. The final point is that the Defence standard is normally 10%, so we have doubled this to 20%.

Q35 **Mr Jones:** The problem I have with it is that even if you just take national insurance, for example, that is between £30 and £40 back to the taxpayer straightaway. The problem I have with this is that it is like motherhood and apple pie—everything is just wonderful—but no one is actually taking it into consideration. You don't know, I haven't been able to discover it, and the NAO don't know. Is it just something that they are slapping on and saying, "Yes, we are taking into account social value," but actually not?

Richard Powell: Yes. I think that, at the moment, there is a limited understanding of what it really means, not least the long-term implications. Decisions that you make now might look quite good on paper. You might, for example, have a bid to create a whole bunch of apprenticeships, but are they real apprenticeships? How long will they last, and what is the broader impact? When we look at this weighting and understand those criteria, particularly in this context, knowing how that social value supports the delivery of the national shipbuilding strategy is really important, and it is not clear in the strategy.

Q36 **Mr Jones:** If we are going to meet Sir John's ambitions in the national shipbuilding strategy, this is going to be a vital part of it, in terms of ensuring the long-term development of skills, growing the industry and making sure that SMEs get in, which Pete has just talked about. That is going to be an important part of it, and it can be done. I just want to highlight one issue that, again, I think comes down to political will. I remember on NLAW, which is now in the news in Ukraine, when I was involved in the early 2000s, Saab—to be fair to them—won that contract. They put a huge amount of effort into ensuring, first, that it was built in the UK, and secondly, that for the supply chain, they went out around the country. I know that companies in the north-east, for example, are still today getting work out of that programme. It comes down to political will to do this, doesn't it?

Richard Powell: Yes, it does.

Ian Waddell: Just to chip in on that, absolutely, we don't know yet, and that concerns me because I would have expected that on something like this that there would be a consultation with industry and the trade unions as to what we should be measuring in social value. I understand that an expensive set of consultants were employed and have produced a report, but I have not seen it.

Mr Jones: It is four years.

Ian Waddell: I know. I also understand that there are measurements in the FSS contract process, but I can't tell you what they are because it is covered by a non-disclosure agreement, and none of the companies will tell me. We are stuck in a Catch-22 scenario where we don't know what is being measured, we cannot contribute to it, we cannot comment on it, but we may end up with a decision at the end of it where we say, "What on earth were you measuring there? Why didn't you measure x, y and z?" It would be simple for the MoD to consult industry and the unions and get some ideas and suggestions. It wouldn't cost them anything.

Mr Jones: That would be a start, wouldn't it?

Ian Waddell: That is exactly what Philip Dunne said. We have produced reports. Anything from 28% to 36%—depending on which report you believe—could be returned immediately to the Treasury. That is a massive discount.

Chair: Indeed, this may form part of our Report.

Q37 **Stuart Anderson:** We have spoken about apprenticeships, as you just mentioned. At the beginning, Mr Waddell, you said that apprenticeships follow programmes. I am interested in the skills side. Will this new strategy support skills development within the industry as a whole?

Sir John Parker: My interpretation is that it has been set up—a body has been set up inside, I think, BEIS—to proceed to develop a skills programme. I just hope that there is an urgency behind it because I understood, for example, that a refit of the Queen Victoria is going on in Belfast right now, and they have had to bring in welders from Portugal. That means we have great gaps where we could train up our young people in highly skilled jobs. That needs to be accelerated, in my view.

I think on the social question that has been raised, the big issue and the judgment that must be made is: are the prices that are being submitted of a dumping nature, or are they heavily subsidised from that source? That has a big impact on apprenticeships, because if you haven't got the work, the investment will not be made in young people's training and so on. Whereas if we get the volume of work in, the companies have no excuse whatsoever—not that they would seek it—or, rather, would really have the incentive to drive on with it. It needs to be accelerated, but let us have the volume to allow us to do that.

Q38 ***Ian Waddell:*** The two things are absolutely interlinked. You need a programme of work in order to be able to recruit people. It is not just apprentices; there are graduates and there is retraining and upskilling. As we increasingly automate the industry—these technologies are already there in the shipyards—people have to be trained and moved through as part of their career. I think this is the biggest challenge for the industry and the enterprise collectively. Sir John, if I asked you to write down on a piece of paper the jobs that you think are the scarcest, I am sure we would come up with the same things: welders, engineers, systems engineers and programme management. There is an absolute shortage across the UK in all those things, just at the time that we are building HS2 and a new nuclear power station, as well as the other infrastructure projects we have. There is huge competition, and that is why the apprenticeship schemes are so important for companies to grow that talent from within.

I don't know yet. The skills taskforce has not met yet, but they are about to send the letters out appointing the 20-odd people who are going to be on that. It is fundamental to the work of the SEG, and I have made sure that at both meetings I said that this absolutely has to be at the heart of everything we do. But I keep coming back to this. I'm sorry that I sound like a broken record, but it comes back to the fork in the road. If the wrong choice is made and FSS goes abroad, as Richard said, confidence in the industry evaporates, and all of those apprenticeship schemes that we might see suddenly shrivel up and disappear. And do you know what? If we then come to build a Type 83, we haven't got anyone with the skills. We haven't got any welders, engineers or programmers, because we did not keep the drumbeat going.

It is an apocryphal term, but I have not been to Glasgow yet without being picked up by an ex-shipyard worker in a taxi. Every time I say to them, "Would you go back?" Not a chance. Once people leave, they don't go back. The whole story that we have had has been one of decline and decay. It has been a bad news story. We are on the cusp of something that could be absolutely revolutionary and a proper renaissance if the right decisions are made. Success breeds success. People want to be part of a success story. They don't want to be part of something that looks like it is a failure and is yesterday's industry. It all comes back to that point. If we make the right decision on this fork in the road, I honestly see a really bright future for this enterprise, and really high-quality jobs.

Chair: A quick question from Dave Doogan, who is a qualified craftsman.

Q39 **Dave Doogan:** Very quickly, a question for Mr Powell and Sir John. Mr Waddell talked earlier about the companies' very legitimate tendency to recruit the very best apprentices, but naturally, they come with a bit of ambition and they go up and get promoted away from the shop floor. Do you think there is a strategic assessment that primes and the supply chain companies can make about having a better spread of apprenticeships? Some of them will make that progression into other jobs, but some of them will stay on the shop floor, maintaining a baseload of those skills that we will need.

Sir John Parker: I think modern apprenticeship schemes recruit for their potential range. In other words, young people who come in and show a real aptitude for their evening classes and study maybe should have the opportunity to go right through and go to university from the shop floor, and others will find it much more natural to use their inherent skillset in delivering skills every day to the project.

Q40 **Dave Doogan:** Is business dialled in to that priority, Mr Powell?

Richard Powell: It is important to remember that the shipbuilding strategy talks about the breadth of the industry. It is from warships and complex commercial vessels through to leisure vessels as well. One thing we have failed to do is make the industry exciting for people in potential apprenticeships. When the correct decision about FSS is made, it should not just be an announcement that this contract has been awarded. It should be announced that this is the foundation of the delivery of the national shipbuilding strategy, which means this for the entire industry. It is so important because it is all those elements coming together, including skills.

Chair: I think that is a very good note to end what has been a very useful session. It will contribute considerably to our report. Thank you for your attendance.