

Scottish Affairs Committee

Oral evidence: [Defence in Scotland: Military shipbuilding, HC 81](#)

Monday 5 September 2022

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Members present: Pete Wishart (Chair); Mhairi Black; Deidre Brock; Wendy Chamberlain; Sally-Ann Hart; John Lamont; Douglas Ross.

Questions 53-128

Witnesses

[I](#): Sir Simon Lister, Managing Director, BAE Systems Naval Ships, John Howie MBE, Chief Corporate Affairs Officer, Babcock, and Ben Carpenter Merritt, Head of UK Government Relations, Babcock.

[II](#): Ivan McKee MSP, Minister for Business, Trade, Tourism and Enterprise, Scottish Government, Rory McGregor, Manufacturing Policy Adviser – Space, Aerospace, Defence and Marine, Scottish Government, Scott McClelland, Policy Manager – Space and Aerospace, Defence and Marine, Scottish Government, and Gordon McGuinness, Director, Industry and Enterprise Networks at Skills Development Scotland.

Examination of witnesses

Witnesses: Sir Simon Lister, John Howie, and Ben Carpenter Merritt.

Q53 **Chair:** Welcome to the Scottish Affairs Committee and to our oral evidence session on defence in Scotland. We are really pleased to have some of our major contractors and investors in defence in Scotland with us today. I will let them describe who they are by way of short introductory statements.

Sir Simon Lister: I am Simon Lister, the managing director of BAE Systems Maritime – Naval Ships. I am based principally on the Clyde in Glasgow, running the Scotstoun and Govan yards.

John Howie: I am John Howie, chief corporate affairs officer for Babcock, and previously the chief executive of the marine business. I am based in London but have responsibility for our international growth, which of course these days involves a lot of shipbuilding.

Ben Carpenter Merritt: I am Ben Carpenter Merritt, the head of UK Government relations for Babcock. I am headquartered in London and focused on improving our relationship with people like yourselves.

Q54 **Chair:** Excellent—those were very concise introductions. First of all, thank you from the Committee for a very useful and productive trip to both Rosyth and Govan. It seems ages ago now; it was at the end of the summer session. I think the whole Committee thoroughly enjoyed it. We are very grateful for your hospitality. Allowing us to clamber over a frigate was certainly the highlight of my couple of days in Scotland. Thank you once again for that.

To get things started, maybe you could tell us your view on the current state of Scottish military shipbuilding. How confident are you that the current revitalisation is going to last and be sustained? We will start with you, Mr Howie.

John Howie: Thanks, Chair. I view the situation very positively at the moment. For the first time in as long as I can remember we have two major warship build programmes happening in Scotland simultaneously—one on the Clyde and one in Rosyth. There has been a significant investment, as you have seen, in the Rosyth facility. Simon can speak for himself, but BAE is planning a large-scale investment in the Clyde. I guess both of those point to a level of optimism that is borne out of the refreshed national shipbuilding strategy, which has a 30-year pipeline of Government-procured vessels, some of which will hopefully stimulate export demand as well.

Sir Simon Lister: I would echo that optimism. I think that the conviction of the Government about the national shipbuilding strategy and the building of the frigates that John and we are embarked on, the Type 26, make for a very exciting time. There is optimism in the yard. I think—I

know—that translates into a sense of security and wellbeing in the workforce, and optimism.

Ben Carpenter Merritt: I would reinforce the same points. Obviously, you have mentioned the matters that are ongoing today, but we have been very fortunate in some of the people we have had in the roles of the Secretary of State for Defence and the Secretary of State for International Trade, and obviously the Prime Minister was a huge advocate of shipbuilding as well. We will see what happens with the new Government and how the new Cabinet pans out. I hope that will be continued, and that they will continue the desire to have an innovative and internationally competitive and sustainable shipbuilding sector.

Q55 **Chair:** What is sustaining this is the work programme for the Type 26 and the Type 31. Maybe this is the opportunity to give an update to the Committee on progress. We will start with you, Sir Simon.

Sir Simon Lister: Batch 1 of the Type 26, the first three ships, is progressing well. The programme is stabilising and we are on track to deliver the first ship in the mid-2020s. The Government remain committed to the second batch of five, bringing the total to eight. We are also exporting the design and that variant of the ship into Australia and Canada. Overall, the Type 26 is in robust health. It is the Government's decision when and how to contract, but we are quietly optimistic and confident that that will be the case.

Chair: And the Type 31s?

John Howie: The Type 31, since the day that the contract was awarded, has hit all its contracted milestones and continues to do so, despite the pandemic impact, which is a huge testament to the workforce at Rosyth and their adaptability. The first ship is into construction and will be in the water at some point next year, with all five ships having been delivered to the Navy by 2028. So far, we have successfully sold a design licence with technical support for that design into Indonesia, which will build two ships to a broadly similar design. It has also been selected as the new primary frigate for the Polish navy—in fact, there is a major exhibition in Poland this week—and we will be working with our Polish partners. Again, there was strong collaboration and support between the two Governments to make that happen, and there are other opportunities out there. The Type 31 has some interesting facets that make it attractive to international navies.

Q56 **Chair:** We will want to discuss further some of the issues around the international programme—as you say, that is very impressive—but with the Type 26, Sir Simon, there is now a year's delay, I think.

Sir Simon Lister: About a year's delay on the first ship, mainly down to the impact of covid, but also to the late arrival of the gearbox for the first ship. The gearbox is specially developed for this ship, which is an anti-submarine warfare frigate, and the machinery has to be developed to a high level of silencing acoustic performance. It has taken some time for the supplier, David Brown Santasalo in Huddersfield, to complete the



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testing of that gearbox. That is now done, and the gearbox is installed and we are progressing well. I believe we are through the difficulties with the gearbox supply; the gearbox is installed in ship 2, which is progressing well, and we expect it to arrive on time for ship 3.

- Q57 **Chair:** I was at the Defence Committee when Vice Admiral Gardner said that there were those combined issues that you described, covid being one. Another was what he described as “supply chain performance”. Are those sorts of issues ironed out now and resolved satisfactorily?

Sir Simon Lister: On supply chain performance, I think that the principal issue would have been the gearbox late arrival. Our supply chain performance in the round for the Type 26 is in good shape. We of course work with the suppliers across the board, but we are already turning our attention to the supply chain for batch 2. For batch 1, most of the equipment has arrived, is in store or is already well built.

- Q58 **Chair:** One of the major innovations you have in the Govan site is the establishment of a big shed, which you will hopefully have in place in the next few years. Is satisfactory progress being made with that?

Sir Simon Lister: Yes, we are delighted with that development. With batch 2 imminent and the Government commitment to batch 2 being so strong, we decided to invest in a large double-lane shipbuild hall in Govan. We have just applied for planning permission for that, on schedule. We will be going through due process with Marine Scotland and with Glasgow City Council, but we confidently expect a good outcome on that and to have that shed in operation in two years’ time. We expect that to have an impact on the schedule for the first batch and then to enable us to accelerate the delivery of the second batch. More importantly, perhaps, it brings shipbuilding into the dry in Govan for the first time, which will be a very important fillip for our workforce.

- Q59 **Chair:** I know there was a conversation about some of the planning issues. Are they all now resolved? I think there was an issue identified at the Defence Committee about a heritage roof that was required to be looked at, and there was maybe resistance about having that progress because of that issue. Is that all sorted now?

Sir Simon Lister: Yes, there were issues around which option to select on the site. One of the options involved the demolition of a listed building. In that pre-consultation phase with the Scottish Executive and Historic Scotland, it became pretty clear that a cheaper and better option existed which did not involve the demolition of a historic building. We have quickly moved on to that and that is why we are making so much progress now.

- Q60 **Chair:** Mr Howie, you didn’t design the Type 31 that is currently being built in Rosyth. How are you therefore learning so that you can be a credible and expert digital designer for the Type 32? How can the company be a modern and efficient shipbuilder if it cannot generate digital design linked to the manufacture?

John Howie: The first thing I will do is just clarify that, although we bought the source design from Denmark, a significant amount of design



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work has actually been done to modify the design both to meet the UK-specific requirements—to bring the design up to current legislative requirements around things like maritime pollution and maritime safety—and to turn it into a design that is capable of being built in our yard. A significant amount of design effort has gone into that, and we have increased our design team to do that.

You will remember that two key parameters were set for Type 31. One was that it needed to be exportable and the second was that it had to be delivered for an average production cost of £250 million per ship. The design in itself is very innovative and cost-effective to build, with the way the Danes designed the source platform, but we have invested a lot of money in digitising the process such that, from those design drawings all the way through to the production activity on the shop floor, there is no human intervention. Combine that with the money we have invested in automating the production process, then you get those cost benefits.

But from a design point of view, we have done a lot of design work there. We are modifying the design to suit the requirements of the Indonesian navy, and we are modifying it again to effectively deliver a sort of polarised version based on what Poland needs. A core part of the business case for Type 31 is the benefit we get of sustaining the design skills through selling the design, and the platform itself, to other nations.

Q61 Chair: Thank you for that. To both of you, what have been the main challenges that you have had to deal with as you have built these vessels? I know that there has been the covid pandemic and we have discussed some of the issues at Govan, but what have been the major challenges in the course of the Type 26 and Type 31 programmes?

Sir Simon Lister: With the Type 26, I would say the core challenge has been, and remains, the accretion of enough skilled people to execute the programme, both in the shipyard and down into the supply chain. One of the best impacts of the national shipbuilding strategy is that it gives certainty to us and to companies about what skills they should recruit and how long those skills might be required for. Today, the biggest challenge is skills.

We are recruiting. Just last week, I welcomed 170 apprentices into the business. That is an unprecedented number for us. We have recruited 400 apprentices in the last five years, but we are going to recruit over 900 in the next four years. That represents our investment in people, which is a core part of the whole investment going into the yard. When you visited the yard, we spoke about the academy we are building. When I talk about a building, I am really talking about the course content and the delivery of those lessons—that teaching. We are trying to take the very good output from the University of Strathclyde and the city colleges in Glasgow and take our people to the next level of applied capability so that the basic skills they learn in those academic institutions are taken to the next level of applied application, to build their confidence, and so on and so forth. So our main focus is on recruiting, training and teaching people.



Q62 Chair: And what have been the main challenges with the Type 31s?

John Howie: If we look at it at programme level, clearly we took on board a programme that had very tight timescales; it had a fixed cost for production; and we had to deliver and systemise £73 million-worth of investment in the production techniques to make all that. So at macro level, there were three quite interesting challenges there.

I would echo what Simon said: when you look underneath that, ultimately shipbuilding is about skills. We can all buy the same equipment, we can all build sheds or buy computer software, but ultimately it is about people—shipbuilding thrives on people. Through the Type 31, we are bringing another 150 apprentices into the business. At the moment, we have just under 200 what we call early-career workers—a mix of graduates and apprentices. Of course, shipbuilding, like every other industry in the UK, is living with the baby boom generation coming to the end of their careers. We are having to deal with the fact that most companies have a gap in those 40s to early 50s employees. Lots of employees are coming in at the front end of the business, but lots of people are likely to leave over the next five to 10 years.

I think that in BAE and Babcock, like in every other industrial company in the sector and in the wider market, a huge emphasis is being placed on retaining the people we have and bringing new people in and accelerating their development, not just to make them productive and effective but to recognise that the world of work has changed. Working patterns changed post pandemic and, as we move into a more digitised age, as Simon said, the way people are trained to work is quite different.

Chair: We will come back to some of the skills and to apprentices in the course of this session, but for now, I will thank you for that and hand over to my colleague John Lamont.

Q63 John Lamont: Thank you, Chairman, and good afternoon, gentlemen. My first question is about the MOD's national shipbuilding strategy refresh. Are you confident that that is going to give your order book a bit of a boost? Sir Simon?

Sir Simon Lister: I really welcome the update of the national shipbuilding strategy. I was involved in its initiation—its first edition—some time ago with Sir John Parker. Its extension into skills and equipment and beyond the yards themselves is very welcome, because shipbuilding in this country intimately involves the supply chain and the yards themselves. Visibility of the order book for the long term is created by the national shipbuilding strategy, and I think the ambition that it contains for environmental modernisation and improvement of our shipbuilding productivity, quality and safety is explicit and welcomed by all of us. To have an industry strategy that is so clearly expressed just gives us the confidence to invest and commit, and helps the environment in which we are seeking to build our business.

Q64 John Lamont: Thank you. Mr Howie, do you agree?



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John Howie: Yes, I do. I should declare up front that I am the industry co-chair for the Shipbuilding Enterprise for Growth, so I have, partially, the red dot on my forehead to help the National Shipbuilding Office deliver it. What I would say is this. Point No. 1 is that the refresh document itself—I agree with Sir Simon—covers all the right things. Its remit has been expanded, and that focus on generating a globally competitive, sustainable industry is hard to argue with.

If I then look at the National Shipbuilding Office, I think Rear Admiral Rex Cox and his team have done a really good job of identifying the key actions that need to be taken to help the industry down that path. As Simon echoed earlier, I think the Government's real challenge is this: if there is a 30-year pipeline, what procurement strategies does the Government utilise that make sure that the taxpayer gets proper value for money at a time when the economy is challenged, but at the same time give industry a steady drumbeat of orders? That certainty is what industry relies on to invest, but it is also the bedrock on which international export growth is built.

Q65 John Lamont: Thank you. I am thinking about the Type 32 and Type 83 contracts now. If they were awarded to shipyards outside Scotland or, indeed, outside the United Kingdom, what impact would that have on you and the wider industry? Mr Howie?

John Howie: Obviously, the starting point is that, today, Government policy is that all warships are built in the UK. Any change in that policy would have a fairly significant impact. If I look at Rosyth and the investment we have made in shipbuilding, we are obviously using that 30-year pipeline as part of the justification for that investment.

Type 31 today is both creating and then protecting 2,500 jobs across the UK, with a sizable proportion of those in Scotland, and of course it generates export opportunities. Were warships being built outwith the UK for the Royal Navy, like all defence products, it is really hard to sell your product to a foreign Government if your own Government does not buy. On Type 31, I can wax lyrical about the price and the programme, but the reality is that—Type 26, I guess, will be the same—that Royal Navy white ensign on the back is an internationally recognised badge of approval that means it is a high-quality product that is trusted by one of the world's most respected navies, and that counts a lot. I would not underestimate the extent to which that UK build and the seal of approval that goes with it gives a platform for export.

Another point I would make is that we should not lose sight of the fact that when we build warships in the UK, 30% of the money that is spent with UK shipyards finds its way back into the Treasury as direct tax take. I could tongue in cheek say that for Type 31 you are really paying for four but getting five. It is important to remember the people we employ and, if you look at the gross value add of companies such as BAE Systems and Babcock in Scotland, not just the money we pay our employees but the trickle down through the supply chain and where our employees spend

that money. The economic benefit that shipbuilding in Scotland brings is significant.

John Lamont: Thank you. Sir Simon?

Sir Simon Lister: I would question why they would need to do that because, as John has mentioned and as I mentioned in my preamble, we are able to compete on the world market with the designs that we are producing with Type 31 and Type 26, and we should be able to produce a competitive design for the Type 32, which we will produce in an increasingly productive and efficient way, delivering value for the taxpayer. If it were to go abroad—I would couch such a decision as a contradiction to the national shipbuilding strategy—it would interrupt the growth of skills and, as John has said, challenge the exportability and our ability to access export markets.

Q66 **John Lamont:** Thank you. Is your competition coming from the rest of the UK, or is it more about a global market, Sir Simon?

Sir Simon Lister: For us, for the product we make, which is a high-end, highly optimised anti-submarine warfare frigate with a very specific capability, able to go in harm's way, fight through and come out the other side, the competition is global. That competition is rooted in European high-end warship manufacture and in the United States too. When Australia and Canada were reviewing which ship to replace, or augment, their existing anti-submarine warfare capability with, they chose the Type 26 based on the capability. But it is an international competition in that setting.

John Lamont: Thank you. Mr Howie?

John Howie: The same, really. If I look at recent competitions—we have been working in places such as Poland, Indonesia and Greece—we bump into the same people in airport lounges. It's the Spanish, the Italians, the Dutch, the Germans. The interesting thing—it is one of the things that makes the UK market different—is that you could argue that the UK market has two national champions, and the MOD. Sometimes we compete, and sometimes we collaborate—on things like the Queen Elizabeth aircraft carrier programme. Most of the people we compete with are a singular national champion, and they tend to operate in packs. When the Spanish tender, it tends to be a national endeavour, which is one of the reasons why I think the support we have had from the Department for International Trade and the FCDO has been so valuable, because the UK has really upped its game.

It is an international market. It is highly competitive. Of course, shipbuilding sales are partly about economics; they are also a lot about politics, as well as about military capability.

Sir Simon Lister: It occurs to me, as we are answering, that we are in fact competing today with the 31 and the 26. We enjoy that competition. We don't duck the competitive pressure that we both feel. When the Type



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32 comes along, however the Government chooses to acquire that ship, no doubt at times we will be competing, and I think that is healthy.

- Q67 **John Lamont:** Mr Howie, I think there is a contract for a warship to be built for the Ukrainian navy. Can you give us an update on that contract, please?

John Howie: We signed a memorandum of implementation witnessed by the UK and Ukrainian Governments probably about a year and a half ago now. As you might imagine, in the last six months the situation has become more complex. What I would say is that the UK Government's policy of being right out in front in support of Ukraine has undeniably helped us. There is a really strong connection, and we are working directly with senior Ministers in the Ukrainian Government. They are keen to progress with the programme.

Clearly, building new fast missile boats is not going to deal with the issues around the current conflict, so I guess one of the heartening things for us in our relationship with the Ukrainians is that they are planning for what the future looks like and are trying to learn lessons from the current conflict in terms of how these platforms get designed. We are still in a pre-contract phase, but we are making progress with them, hopefully towards a programme that would not only give Ukraine a vital naval capability but, again, would give the UK another exportable product that will find other markets.

- Q68 **John Lamont:** Have those negotiations been disrupted or made more difficult as a consequence of the ongoing conflict, or have they just proceeded as they have before?

John Howie: Clearly, the Ukrainians have a number of other, competing priorities for the Defence Ministry, and in the early days of the conflict, clearly that dominated their thinking. As time has gone on, they have found some bandwidth to restart discussions.

I would not characterise the discussions as difficult, because I think the relationship—again, supported by the UK Government—directly with senior politicians in Kyiv has been really positive, but it is clearly complex. They are buying in military capability, and if I was being honest, if you are a UK defence contractor, the UK Government are a very professional and specialist procurer of military hardware, and sometimes when we work in international markets, we have to think in a different way about how we specify products and about the level of capability that exists to do some of the in-depth assessments that the UK might be used to doing. But, no, the relationship with Ukraine has been really positive, and it has actually led into other areas where we have been able to help them with other parts of the business, away from the marine aspects.

- Q69 **John Lamont:** That is helpful. Lastly from me, Sir Simon, I think you touched on this already, but can you give us an update on how the contract negotiations are going for the final five Type 26s that are due to be built on the Clyde, please?



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Sir Simon Lister: It is for the Government to release news about the progress of that contract, but I can say that we have progressed well these last 18 months, and I think you should draw your own conclusions from our planning permission application. It will be for the Government to release details of the contract.

John Lamont: That's all. Thank you.

- Q70 **Chair:** Just on that, before I conclude this part of the session, would it have been better had you been given the order for the eight Type 26s initially? Has there been any difficulty or impediment in having it broken up between the three and the following five?

Sir Simon Lister: There are arguments for and against batching. A batch of three, then a batch of five, from the Government perspective, has allowed them to better calibrate the risk in the production of all eight, and I think that, for the Government, that probably gives a better value-for-money outcome and more certainty to the programme as a whole. Against that, the investment that we are now able to make on the back of five could have arrived a little earlier based on a batch of eight. I was on the Government side at that time, and I know the investment was challenging for both the Government and the company when the batch size for the first batch was set at three.

- Q71 **Douglas Ross:** Good afternoon, gentlemen. I want to start off with the current situation we find ourselves in as a country, and the skyrocketing energy prices. Having been to both your sites, they are extremely energy-intensive. How have the increasing prices and the uncertainty affected what you are currently doing and are projected to do in the future? Sir Simon?

Sir Simon Lister: For us, you are right; our energy bill is over £5 million per year. This inflation in energy consumption is a close area of focus. Our first response is to economise wherever we can; the energy price increase has given fresh impetus to economy—turning thermostats down, and so on. However, our approach has been, for some time, to forward-buy energy and go for long-term deals on energy consumption, and the company as a whole works very closely with the energy sector to optimise purchasing. None the less, that pressure is there, and our approach, I am afraid, is to pass that cost increase in energy through to our customers. It is very difficult, with the taut pricing of our programmes, to absorb that scale of increase.

John Howie: Our position is very similar, in the sense that we negotiate long-term contracts for energy supply, which protects our security of supply, but clearly the rate can vary when energy prices spike. The way that defence contracts are structured of course underpins the way that projects are priced. Like Sir Simon said, we have seen our energy bills go up quite significantly. Of course, industrial properties are not protected by the energy price cap, so we have seen quite large spikes.

Thankfully, because we had embarked on a path of aiming for what we call "Plan Zero 40"—getting to net zero emissions by 2040—we had already



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started to look at how to move, particularly at the Rosyth site, away from external supplies to accessing more renewable energy sources. Particularly when you have a large landmass such as the Rosyth site and the ability to put in wind turbines, solar panels or roof-mounted mini-turbines, there are opportunities there to offset bills. Of course, in any business, you always want to get your costs down, because that is how you improve competitiveness. But, yes, I think that, like every other business in the UK, the current position with energy is challenging.

- Q72 **Douglas Ross:** What about for your staff? We have seen staff in the public sector take action in Scotland because of inflation and cost of living increases. How are staff feeling at the moment in both your sites?

Sir Simon Lister: We keep in very close touch with our staff, but the cost of living is a universal pressure for all our folk. We have, in the last few months, concluded a two-year deal to improve their pay and to help to offset some of the inflationary pressures they are experiencing, and that has been welcomed. That has applied to all non-executive staff. We keep in very close touch—very close connection—with folk, and it is some of our most junior and our longest serving who appear to be hit hardest.

- Q73 **Douglas Ross:** I think it is fair to say, Chair, that when we visited the site, the unions were very positive about the discussions between management and the union, so that is important for the company.

John Howie: We normally negotiate pay deals at a local site level. Our new group CEO took the view this year, with the cost of living challenges, to do a national offer, which was structured in a way that gave the maximum benefit to the people who were on the lowest incomes. Clearly, like with all of these things, ultimately we are working on Government contracts and we are mindful about the money we spend. People on higher salaries got proportionately lower increases in cash terms, but that was to recognise that a sizeable part of our employee base are probably on sub-£40,000 a year salaries. So we aimed deliberately for the people who were on the very lowest salaries. Although everyone in Babcock is on a living-wage level or higher, we have deliberately aimed our pay deal at supporting those who are likely to be suffering the most through the cost of living crisis.

In addition to that, we have made a range of financial planning tools available to employees. We have allowed them to make direct savings through Yorkshire Building Society, where they can get the money deducted from their salary. There is financial support available to them and, ultimately, those who need it can get access to pay ahead of their normal pay date if they have in-month pressures to deal with. For more tangible issues, we give them access to employee loans, with a higher acceptance rate than normal borrowing, which gives them that added protection when the company is involved in the process.

- Q74 **Douglas Ross:** Sticking with staff, Sir Simon, you were saying that the biggest challenge is skills. We have a Scottish Government Minister in the panel after you, and obviously skills and education are devolved in



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Scotland. I was encouraged to hear the numbers; you are talking about 900 additional apprentices in the next four years, I think.

Sir Simon Lister: In the next four years.

- Q75 **Douglas Ross:** How do you achieve that? Are there people there with the skills ready to come in? How much are you, as individual companies, doing with both the UK and Scottish Governments—particularly the Scottish Government—to ensure that there is that future workforce going forward?

Sir Simon Lister: We are working very closely with Skills Development Scotland. An example of that is improving access for those who have not achieved academically at school to gain a route through the company to become a qualified tradesperson. That has been worked up with Skills Development Scotland, and I think it is quite innovative—you might ask them how they feel about it.

In addition to that, there is our intake of 186 apprentices this year across the business in Scotland—I noted 170 arriving last week. That intake was over-subscribed by a factor of three or four. Our job is to ensure that, from that group, we select the right cross-section of skills, ambition and background to reflect our future needs as a business. So, at the apprentice level, we find a good, strong response. Our responsibility is to train them well through the capacity that exists in Glasgow for basic training in the universities and colleges. Then, as I mentioned, there is the academy, to take them to the next level of confidence and application of those skills. Our responsibility is then to top that up over time. We feel that the continual professional development of everyone in the business is a core responsibility of ours to enable our workforce to reach the levels of productivity we are looking for.

Where we are challenged is in recruiting already experienced personnel to core. We have an ambition to recruit a further 400 core staff tradespeople into the business this year. The first 250 to 300 have gone well, but my personal question mark hangs over whether we will be able to fully finish that recruitment. The evidence we have is that certain sectors, particularly steelworkers, are in very strong demand around the country. That is as a result of the steelwork demand increasing around the country, and wind, energy and shipbuilding all contribute to that. As a shipbuilding enterprise across the country, we are paying particular attention to the building of steelwork expertise.

John Howie: Today we employ just under 4,000 people in Scotland. Thankfully, the bedrock is solid, and our staff turnover rates are very low—we do not lose lots of people. Ultimately, retirement and ill health will take people out of that.

STEM is a significant focus for us and has been a core part of the way we do business for a long time. That is partly driven by the personal passion of a number of people on our senior team to get more people, from a school level upwards, interested in science, technology and mathematics subjects. I have often felt that that balance has not always been right.



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Looking at what we are doing today, with school leavers we are starting what we call a pre-apprenticeship programme. If we take Fife, for example, our apprentice programme is generally massively over-subscribed; we are the largest employer in the area, our apprentice programme has a good reputation, and we work in collaboration with Fife College to deliver a really good learning experience. You get lots of people coming into the workforce who have got friends and family already there—again, that is another good sign that the culture is solid. The pre-apprenticeship programme aims to get people who are still at school to start thinking about a direct-entry apprenticeship at a very early stage in their career planning. Like BAE, we are running a programme that tries to encourage people who do not have a trade background to join the workforce as production support operatives, and then to be trained beyond that. Graduate apprenticeships are another way of getting people into the company.

Of course, our graduate scheme is quite well subscribed to as well. Like BAE, we have no doubt that there is a challenge today with certain skillsets. Steelworkers are the example that I would have highlighted as well. It is just the classic factor of demand exceeding capacity, and we have to work hard to compensate for that. Thankfully, both companies here, as UK-based public limited companies, have a good brand reputation, which probably gives us a head start.

- Q76 **Douglas Ross:** Sir Simon, you mentioned that you are competitors for contracts. You are also competitors for this pool of skilled people, or for people who you can train up. Are there people trained by BAE who get snatched by Babcock and vice versa? Is there a kind of osmosis between the two, whereby people shift from one to the other? Or do people tend to sign up early on with one of you, and continue there throughout their careers?

Sir Simon Lister: We find that if we have invested, and the individual has invested through an apprenticeship, then as John said, the churn remains low. However, I wouldn't be being candid if I did not say that our steelwork population has been watching developments in Rosyth over the last three years as they have been driving from Fife to Glasgow. They have diverted now to Rosyth. We always expected that. There is a quiet competition for resource going on, but we try to make sure that we are not inflating rates foolishly through that competition. We are both embarked on a comprehensive education, training and induction programme to avoid that eventuality.

John Howie: Inevitably, there is always a bit of movement between the two companies, but it is relatively small numbers. It tends to be people who are making a life choice about what their travel-to-work distance is, or sometimes it is people who want their career to go in a different path, and find it easier to find an opportunity outside than inside. I also agree that it is in neither of our interests to create a local demand economy that just drives wages through the roof. Ultimately, we are conscious that we spend taxpayers' money. We don't want to create a workforce that becomes unemployable anywhere else because we have created an



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artificial bubble, but we also want to make sure that we have people who are well paid, well skilled and well experienced. They stay with either BAE or Babcock because they feel that they get the right career opportunities and the right development opportunities.

- Q77 **Chair:** It is interesting: I think it was you, Sir Simon, who said that in your workforce, the baby boomer cohort are coming to the end of their employment life. Then you have the next generation of young people coming in—for example, the ones we met at your yard in Rosyth. Is there some sort of reason why that bit in the middle didn't appear? Was it just a lack of investment and resourcing of apprenticeship programmes at that point?

Sir Simon Lister: John may have a perspective to complement mine, but my sense is that the absence of a national shipbuilding strategy in the last 15 years has led to a quiet atrophy of the intake and the training of the next generation. In the last five years, progress has begun to accelerate again. If you think back 20 or 30 years to the heat of the cold war, I think the rate of production was much higher. Your yard, John, was heavily involved in refitting at that time, and recruitment was strong. My sense is that after the cold war, absent the national shipbuilding strategy, recruitment did fall back. That is, I think, the great advantage of the national shipbuilding strategy and the visibility of the order book now.

John Howie: Yes, I would echo that. I think there is a better, holistic approach taken now to the way programmes are sequenced, and the 30-year workplan that underpins the national shipbuilding strategy can only help with that. Babcock and BAE, and Thales as the partners in the aircraft carrier lines, sought—with the Ministry of Defence—to make sure that we didn't take this massive programme and create a huge bow wave of demand that massively increased an industry to the point where it couldn't be sustained. That doesn't benefit anyone. I can think back to my time working on the Clyde, when it was still Yarrow shipbuilders, when the order for the final batch of Type 23 frigates was placed. There was straight competition between Yarrows, which was part of GEC, and Vosper Thornycroft. The winner celebrated; the loser issued redundancy notices. The industry has had a challenge for many years: there has been a bit of a boom-and-bust cycle. In recent years, through MOD and wider Government procurement, more stability and longer-term thinking has applied. I should probably give Simon credit for that, since he was the customer when we started.

Chair: Praise is always welcome on the Committee.

- Q78 **Wendy Chamberlain:** I worked for CTP at Rosyth, which is an obvious source of mid-career intakes for you. Some very positive stuff is coming through, but I note that the Defence Committee says that we should ensure that warships are built in UK yards; organisations such as yours are saying that we should move away from that global competition by default, but the MOD has said that it wants to maintain the procurement route that it has. Why do you think the UK Government are taking a different view from the Select Committee and organisations such as



yours?

John Howie: I guess an element of it is that the Government pays the MOD's procurement organisation to get best value for the taxpayer. There are multiple ways of achieving that, but if the MOD were in the room, it would say, "We ran a competition for the Type 31, and it stimulated shipyard investment. Isn't that great?"

The international competition thing brings an interesting element to this. On its best day, it leads to investment in the UK and new skilled jobs, which is good for the industry as a whole. On a bad day, we are weakening the UK's export potential. If we were to award warship orders to one of the companies that Simon and I regularly compete with, there is no doubt that when they talked to our international prospective customers, they would be quick to point out that the UK is buying its warships from them, not from UK suppliers. There is a careful balance to be struck, ultimately, between the way that we support indigenous industry in order to generate skills and investment, and value for money. I do not underestimate the difficulty of doing that.

Q79 Wendy Chamberlain: Sir Simon, is there a particular issue around the fact that a number of your overseas competitors are state-sponsored?

Sir Simon Lister: It is really challenging to make sure that, in any competitive process, a level playing field is used to assess. Shipbuilding is about managing risk well. If that risk is picked up by a third party—perhaps the state—that level playing field can be difficult to assess.

The allocation of work to the United Kingdom needs to be matched by our collective ambition to reach world-class efficiency and productivity in our shipbuilding. There is a balance there.

Q80 Wendy Chamberlain: What you are saying is that you need to be appropriately challenged by the UK Government, so that you make the changes and build your businesses in a way that means that when you go for procurements, you are successful.

Sir Simon Lister: Just that. In the same breath, I both welcome the national shipbuilding strategy with regard to the visibility of the order book and absolutely recognise the challenge inherent in the strategy: to improve productivity, quality and value.

Q81 Wendy Chamberlain: Mr Howie, you mentioned sustainment of design skills. Is that a potential benefit of the UK Government approach?

John Howie: At the heart of our business model for a long time has been our ability to act as a designer of complex platforms. I use that phrase advisedly because I do not always necessary mean military platforms. For many years, the design team in Rosyth was probably one of the largest complex commercial ship design agencies in Europe. Our customers include De Beers—we helped to modify diamond mining vessels. The two largest ships in the world today were partially designed by design engineers sat in Rosyth. There is a depth of design skill there that has



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been used heavily in the commercial market, and it is now moving into programmes such as Poland and Indonesia.

What are international customers looking for? They like the design pedigree of people who have worked for one of the world's most respected navies. They want access to designs that offer them something unique, either in the value or the military capability they bring. The UK has a strong reputation; maybe sometimes we have underplayed it in the past.

- Q82 Wendy Chamberlain:** Sir Simon, you touched on the fact that there are different approaches that the UK Government might take. You have been on both sides of the fence, as both customer and contractor; what are the essentials that we should expect to see in a procurement approach to ensure the best value for money for taxpayers?

Sir Simon Lister: There are three main factors to bear in mind. The first is a long-term perspective of genuine stability in demand. How industry responds to that is for industry, but the visibility of that demand, so that we can gear up in the appropriate way, is fundamental No. 1. Fundamental No. 2 is the pace at which, and the quality with which, the specification and the requirement is launched into the market. One of the comments John Parker made about the Type 26 procurement was that it extended over many years, and the uncertainty that that engendered was unhelpful both to the customer and in the supply base, so pace is quality No. 2. One of the key lessons John and I observed in the Aircraft Carrier Alliance was the ability to work together effectively—client and supplier—without prejudicing the rights of either to manage a complex programme. Much of the risk in the shipbuild lies in that inter-relationship and optimising it. Getting that relationship set for success is the third attribute.

- Q83 Wendy Chamberlain:** Thank you. Mr Howie, do you have anything to add to that?

John Howie: Yes; they are maybe variations on a theme. We have mentioned a few times the importance of avoiding what I called boom-and-bust contracting. There are inherent inefficiencies in ordering a batch of ships and then not ordering anything for four, five or six years. It is hard to retain workforces. It is hard to update skills. That sort of stable programme is really important. Sir Simon talked earlier about buying platforms in batches. There is no doubt that the fact that the MOD placed the order up front for five ships gave us a platform—pardon the pun—from which we could invest in new production methodologies.

Historically, if an order was placed to design and build the first of class, and there was the potential for a follow-on order, it was much harder for business to underpin the investment decisions, so that is quite important. A long-term approach is needed, particularly around the domestic capability and capacity that the UK wishes to have. We want shipbuilding exports to be a fundamental part of our defence export success for the next 20 or 30 years, and that is about asking how much capacity and capability we want to have, and how domestic procurement can play a part in that.



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I echo the points about collaboration. As the world changes geopolitically, we probably need to design platforms that are inherently adaptable. A lesson from the past: we designed the Type 23 as an anti-submarine warfare frigate. The cold war ended, and quick as a flash, we refitted them with air conditioning units and sent them to the Mediterranean to deal with a terrorism threat. That is about recognising that the world changes, and defence procurement programmes by their very nature have a long flash-to-bang time.

- Q84 Wendy Chamberlain:** As the Committee has learned, the outside costs a lot less than what goes inside these ships. Thank you very much. Can I move on to questions about the fleet solid support ships? Mr Carpenter Merritt, what is the significance of the FSS procurement to the shipbuilding industry, particularly in Scotland?

Ben Carpenter Merritt: It is the first cab off the rank after the refreshed national shipbuilding strategy and the desist. We are talking about moving away from international competition as default. That instance is quite interesting; we have talked about competition a lot, and in the UK competition, we are partnered on that. Team UK is Babcock; BAE is a partner, and then there are a number of other UK yards. I think we are the only solution that is offering effectively 100% UK build. Our solution is quite an impressive offer compared to some of the others, perhaps. It is an interesting time. This procurement, which is coming up, will be an interesting benchmark of where the Government are on the delivery of the national shipbuilding strategy. I think it has the potential to challenge the status quo. International competitors will definitely be watching to see how this procurement pans out.

- Q85 Wendy Chamberlain:** Absolutely. That is my next question: what will be the impact be if it does not pan out? Obviously, you are very confident.

Ben Carpenter Merritt: It will depend on what the other bids are offering. I have not seen their bids.

- Q86 Wendy Chamberlain:** You have certainly given us the USPs of Team UK.

Ben Carpenter Merritt: That is probably as far as we can go; we cannot stray into the details of the bid.

- Q87 Wendy Chamberlain:** The Scottish Government have said that shipbuilding capacity and the resilience of that capacity are ongoing issues. Sir Simon, what do your yards need to do to ensure that they have the capacity to deliver that programme?

Sir Simon Lister: If we are successful, we will build some components for the FSS. I can speak about the Govan facility; John can speak about Rosyth's input into the shipbuild process. It is more than the capacity to put steel together that is important here. There is a really important part of shipbuilding that we have not spoken much about, which is the design teams, which need continuity of work. They are based in Scotland and elsewhere, but the large proportion of both our businesses' engineering effort is in Scotland. I see continuity as really important. Do they have the capacity to absorb that work? Yes. Would the absence of that FSS work



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prejudice that continuity and the sustainability of that workforce? Yes, but we go looking for other work to plug that gap.

- Q88 **Wendy Chamberlain:** I agree with you that the design aspect is so important. That is what breeds the next project and the next project, over and above the straightforward skills. Mr Howie, what are your views on that?

John Howie: As both Ben and Simon have said, when the FSS competition was relaunched under the auspices of the national shipbuilding strategy, you read the requirement of what the customer wants, and then you read the shipbuilding strategy to get the ethos and spirit that sits behind it. We very deliberately aimed to design a solution that we felt was absolutely consistent with the aims and objectives of the new strategy. In that sense, although there will be a key amount of work done—the final assembly of the vessels in our facility, and modules being built by BAE—we deliberately looked at the other main yards around the UK, in the north-west, the north-east, Devon and Ireland, where there was the opportunity to distribute the build and support that with investment that would help upskill them.

We recognise that shipbuilding is a way of delivering your levelling up straight into the heart of regional economies. That has been at the heart of our design. We have deliberately designed the ship to allow it to be built in the way that the carrier was: in a very modular way. We build it in distributed areas and then bring it together for final assembly. That is not about the steel work; it is about the systems, proving the propulsion, the comms systems, and all the other technical elements.

Sir Simon Lister: That goes for the supply chain, too. We have designed the FSS to incorporate UK equipment wherever possible, so that the benefit of UK jobs arising from the programme extends right the way down into SMEs that are engaged in supplying small and medium-sized components for the ship. The sustainment of skills and momentum in that supply chain is a very important component of this.

- Q89 **Wendy Chamberlain:** And the breadth of that geographical spread is very impressive.

Sir Simon Lister: It's substantial.

- Q90 **Deidre Brock:** Good afternoon, gentlemen; it is nice to see you again. I want to ask about the 20% weighting for social value that the MOD has announced. It swings into place when shipbuilding contracts have a preferred procurement approach, and competitiveness. I know that that has been welcomed across the board, but there are some concerns. We heard from Professor Taylor a view that the terms of the guide could potentially discriminate against incumbents. I would be interested to hear your thoughts on the MOD's decision, where you think the benefits lie and where the challenges will be for you. I start with you, Sir Simon.

Sir Simon Lister: We welcome the arrival of that social consideration in the procurement policy. It levels up the playing field, in the way that I



described earlier but in a fresh dimension. It also makes explicit that value in investing in a project of this kind appears in many different ways in society, and it allows that to be expressed and used as part of the proposal. This is its first run out for us in the FSS; we have yet to see how it pans out in reality, but we have welcomed the chance to make explicit the value inherent in investments in people and in the infrastructure that we plan to use, if successful.

John Howie: Like Sir Simon, we were delighted to see a social value element being added to the FSS, but there are a number of things going on there. There is clearly a drive from the MOD to make defence procurement more sustainable—reduced carbon emissions, better sustainability of the supply chain and so on—as well as the drive to deal with that UK prosperity element. They are trying to deal with a complex set of challenges, and because that is the first one it is too early to tell how many of the benefits the MOD are seeking will drive into the procurement.

There is evidence that the Government have listened to us on the challenges we face in dealing with state-supported competitors, as a Member mentioned, which often have an advantage just in the way that they are funded. It does change the way the industry looks at competitions; we are not just trying to find ways of delivering the lowest cost solution, we are trying to find solutions that are environmentally sustainable, that maximise the investment in local communities around jobs and recognise the roles that shipyards play in the areas they operate in. It is hugely valuable.

The UK takes quite a different approach on things such as social value. Both of our companies work in Australia and Canada. In our contracts in Canada, we are mandated to deliver 100% of the contract value in social value into the Canadian economy, either directly or indirectly. I recognise we have quite a different approach in the UK, but it has been interesting to see how other countries have used social value elements almost, for want of a better phrase, as a bit of nation building, to help build industrial capability and capacity and to help shape their industry. The UK doing that could be quite powerful, and it will be interesting to see how it develops.

Deidre Brock: Mr Carpenter Merritt, is there anything you would like to add?

Ben Carpenter Merritt: I do not have much to add, other than reiterating the points that were made. It is a real, clear recognition of the social value model as a whole; it is a clear recognition of the value of indigenous or domestic industry, and the value that domestic investment brings. The point that Professor Taylor made about the value of long-term investment in companies that are more tied to the country they are investing in was valid.

Q91 **Deidre Brock:** I do not think any of you answered this, but do you share Professor Taylor's view on incumbents potentially being discriminated against through this approach? Is that something that you are concerned



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about and, if you are, how have you gone about trying to address that?

John Howie: I have lost track of where we got to with the process, but there was a point in its early days where, depending on how you applied the rules, if you were an incumbent contractor rebidding a contract that employed 200 people, and one of the competitors was going to create a new factory to employ 200 people to deliver the same contract, they could get value for that investment, whereas the retention of the jobs by the incumbent would not be valued. In fairness, the MOD recognised that glitch early on and were taking steps to deal with it. I cannot say for certain where it got to—I lost touch with it—but it was a potential challenge in the early days when they were first trying to shape how it would work.

Sir Simon Lister: And I did not answer your question because I am not able to.

Q92 **Deidre Brock:** Fair enough; I guess that is a question for the Minister when he eventually appears in front of us. The criteria can include things like fighting climate change, covid-19 recovery and tackling economic equality. Could you give us a wee hint of how you have been able to present those criteria in support of that social value weighting, Sir Simon?

Sir Simon Lister: Where we have gone mostly is in the creation of work and the sustainment of work in the constituent shipyards. I am not sure I am able to say too much because of the commercial sensitivity of our proposal—our proposal is in train and under review at the moment—so I do feel constrained, and I do not want to give advantage to others by talking too much about it. But we have certainly explored how, using those social value criteria, we can attract investment and sustain work.

Deidre Brock: Interesting. Mr Howie?

John Howie: I mentioned earlier that one of the things about shipyards is that they tend to be, if not the largest, then certainly one of the largest employers in their areas. History says that shipyards tend to be in areas of lower social and economic mobility, and we are very conscious as an employer that the things we do matter in our local communities. Most of our employees come from the immediate travel-to-work area that we employ people in. As a result of that, we are mindful of the role we play in their local communities, and we do that through supporting local charities, and cultural and sporting outlets that would be of value to the employees. Interestingly, Type 31 made some of the commitments on delivering social value contractual. Since the start of the programme, we have delivered, for example, over 1,000 days of volunteering. Members of our workforce are volunteering in local communities to try to give something back to the community.

I mentioned this during the STEM piece, but we are mindful that we need to understand the schools, colleges and universities where our employees come from and the communities they live in, so our community engagement strategy is specifically targeted at helping those areas. I



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mentioned the need to retain the employees we have. Apart from anything else, creating an environment where families can see the value that they get from being part of the connection with a company is part of that retention story.

- Q93 **Deidre Brock:** That is certainly the impression I gained from visiting you, Sir Simon, and speaking to everyone in the union and across the board, so I presume your answer would be similar to Mr Howie's.

Sir Simon Lister: Yes, just that: we serve the communities we work in.

- Q94 **Deidre Brock:** Lastly, there has been a suggestion that the MOD needs to provide more information about social value weighting criteria. Is that something that you feel? When would you expect that, and how much impact is that having on bidding for the contracts at the moment?

Sir Simon Lister: I think we are waiting to see how our proposals for the future solid support ship are responded to. For us, it is definitely our first run out against these criteria, and it will be interesting to see if they are evaluated in the same way that they were proposed.

John Howie: We recognise that it is an embryonic piece of the procurement process. I agree with Sir Simon: FSS will be an early test case of how it works in practice, but I can see that the way the MOD is thinking about it is evolving. As each procurement comes forward, I would imagine that the way it is focused and targeted will get sharper.

Deidre Brock: Lastly, Mr Carpenter Merritt—anything?

Ben Carpenter Merritt: I agree: long-term consistency, but in this embryonic stage I think we will obviously have tweaks and changes around the edges as it progresses.

Deidre Brock: Thank you.

- Q95 **Sally-Ann Hart:** Good afternoon to our panellists. I am going to look a bit more at the skills in the sector. You have all said that, as companies, you are preparing graduates and school leavers to join your companies. As we have heard from one of my colleagues, education and skills in Scotland is a devolved issue. Bearing in mind the UK Government's shipbuilding skills taskforce, do you think the Scottish Government should be looking at how it can better prepare school leavers and graduates to join the shipbuilding sector? That is the first point; can I go to Mr Carpenter Merritt first?

Ben Carpenter Merritt: Absolutely. I think anything to support careers in shipbuilding, we would welcome. Naturally, we do not want to reproduce work that is being done by the skills taskforce. One of our colleagues—from Rosyth, in fact; some of you were able to visit—sits on the taskforce, so making sure that you are dovetailed into that work will be important to avoid duplication. Anything going towards the overall goal of having more people with careers in shipbuilding would be hugely welcome.

Sally-Ann Hart: Thank you. Mr Howie?



John Howie: I can say that it is on the agenda. I took part in a Scottish Parliament session similar to this a few months ago, which was around shipbuilding but had a skills bias towards it as a recognition of an area of devolved responsibility. We in industry will take any help that's going, so the more the merrier. I agree with Ben, though, about that being co-ordinated more to avoid duplication. It is a huge topic for not only the shipbuilding industry, but UK industry as a whole. We know that there are not enough engineering graduates coming out of UK universities to satisfy the demand that will come from growth in the economy. We know that there are certain production trades today where demand exceeds supply. There is a mix of short-term things where we work at both a devolved level and a UK level for short-term fixes, but the more important thing—the skills taskforce is a key example of this—is the longer-term planning that is needed to ensure that we generate the next generation of the workforce, and that we don't just plug gaps today.

Sally-Ann Hart: Thank you. Sir Simon?

Sir Simon Lister: Yes, undoubtedly, and particularly for young women. Gender balance in our trades groups is very poor—only 3% of our operational team tradespeople are women. Although plenty of women apply, the lived experience on the shop floor for many people is that the balance is very hard to adjust. Although we are doing everything we can to ensure that the gender balance improves, it could start at school with debunking the myth that shipbuilding is about lighting your cigarette on the end of a welding rod. It's much more about well-organised work that is quietly and effectively delivered. The gender balance we seek would be such a powerful addition to our capability.

John Howie: I'd like to add a sort of vignette from my early days on the shipyard of standing at a graduate fair, where we were showing off what was then one of the world's first 3D product models for a warship, which was for the Malaysian frigates that were exported from the Clyde. This was GEC-Marconi—one of the country's biggest industrial companies—but there was not a single soul at our stall. I went to the John Lewis Partnership stall, and there were graduates literally queuing around the hall. It was because of that same issue: people perceive that working on shipyards involves oily, greasy, noisy environments and boiler suits. That does start in schools. We need to get careers advisors, who have a tough job, to understand that today, shipbuilding is a high-tech industry. These days, companies such as Babcock and BAE hire as many data scientists as mechanical engineers, as the world becomes more digitally enabled and information rich. The industry as a whole has a bit of a reputation shift, but we need outside agencies to help with that.

Q96 **Sally-Ann Hart:** Presumably you have relationships with local schools, where you go in and talk to students about the opportunities available.

Sir Simon Lister: We do. Our workforce goes into local schools, and it is welcome there.

Q97 **Sally-Ann Hart:** Thank you. Looking at the future Type 32 and Type 83



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contracts going to Scottish shipyards, how challenging will it be for you to increase recruitment levels? Put me right if I am wrong, Sir Simon, but I think you said that you had a three-times—

Sir Simon Lister: Over-subscribed.

Q98 **Sally-Ann Hart:** An over-subscription. Is this going to be challenging in the future, or will you be able to take steps with the shipbuilding skills taskforce to address that?

Sir Simon Lister: We expect the Type 32 procurement window to overlap with the continued work of the Type 26 and any global combat ship work that might add to the Type 26 order book. Our approach to the Type 32 is, first, to think about innovative designs that deliver the Government's requirements and, secondly, to explore how we can dovetail some of that work in with partners to produce the Type 32 in the United Kingdom and in Scotland. I know that John's facility will be freeing up at that time, and quite how the Type 32 is produced is, I think, a separate question to how it is designed and developed. Design and develop? The skills are there. Produce? We will have to dovetail it in with our future work, as everything, whether that is the future solid support ship or the Type 31 or Type 26. The skills are available, provided we organise the programmes effectively.

John Howie: For us, when we invested in the new capability of Rosyth, it was on the back of a challenge from our new group CO to stop thinking about Type 31 as a programme and to start treating it as a product. If you were building a car in a factory, you would not build the factory around a single model of car and then stop. You would be thinking about how you sustain that production capability as the model range evolves.

In that sense, our approach to Type 32 is that as you build a drumbeat of one ship a year coming off the production line, a Type 32 programme continues that and uses the same basic design parameters to give you that balance. The Navy will want to take account of the latest developments in technology, including automation to reduce crewing demand and modularisation, and change in the external world will change the sorts of threats we face and therefore the capability that these frigates have.

However, the more you can maximise commonality of training, spares and maintenance and repeatability of the design the more that delivers real value to taxpayers, because you get an economy of scale and the learning benefit of building essentially the same design on a repeatable basis. Get that balance right between, as Simon said, innovation—it is really important to keep the Navy at the head of the pack—and trying to maximise the value that is delivered by repeating elements where possible.

Sally-Ann Hart: Thank you. Mr Carpenter Merritt, do you have anything to add?

Ben Carpenter Merritt: Absolutely. Going back to the skills point in the original question, obviously you will have heard of graduate apprentices.



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Our graduate team and our early careers team are really keen on thinking more laterally about how we address the skills challenge.

Traditionally, everyone went for skilled people: "You're a welder. We need a welder. Come and weld this, then." We are looking beyond that and thinking about pre-apprenticeship programmes, so we are looking at getting people who have the right aptitude into the apprenticeship programme before it starts, so you get the throughflow.

Obviously, we have talked about the schools engagement, but at Rosyth they have a really impressive programme called production support operatives, which identifies people who are not skilled tradespeople of varying ages—some are second careers and some are first careers—and saying, "We think you've got what it takes to work in this environment. Would you like the opportunity to come and try to get a job here?"

That takes some of the weight off the skilled tradespeople, so they are freed up to do the tasks that they are skilled to do, and we help them and support them in that production. That has been hugely successful and it has been completely over-subscribed both times we have done it so far. We have also seen an increase in female applicants, because there is not the exclusivity of the trade—traditionally, they have not been put down that route. We have seen it as a broadening of the intake as well. It is a really positive programme.

Q99 Sally-Ann Hart: You have plans for skills development apprenticeships. Given the changes in possible technologies, do you think that you will be able to keep pace with those changes with your skills and your workforces, Sir Simon?

Sir Simon Lister: Undoubtedly, it is a challenge, but we are rising to it. The worked example would be the digital skills necessary to operate in the shipyard of the future. So, digital awareness and confidence are something to grow. Not everyone is equally happy taking their instructions from a tablet or an iPhone or recording their progress digitally, as you might expect, but we are building confidence among the workforce, equipping every tradesperson with a digital competence sufficient for the work ahead. That is a really clear example of how we are moving the skills portfolio and modernising it as we go.

We have just completed a training needs analysis for our new academy and digital features largely there, but also leadership. It is really important to focus on the leadership challenge in shipbuilding, creating the right environment for that next generation to join—putting the machismo of the past behind us and going into a much more egalitarian and progressive environment, which is more attractive for the folk we wish to recruit.

John Howie: I will give two examples, picking up Sir Simon's point about digital skills. When we designed the production methodology for Type 31 with a new intake of employees, we tried to think about how the next generation of employees learn. They learn in short soundbites on a digital mobile device. They buy things from Amazon, which turn up at their house



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in 15 hours' time. We are moving away from an environment where a tradesperson spends half their day walking back and forth to a storeroom to collect parts. We are giving them a tablet so that they can dial up what they need and it is delivered to their place of work. It is instinctive to those people; that is how they already think.

As technology evolves, we need to think about where there might be people with sympathetic skillsets who can be easily retrained. For example, as we move from the world of internal combustion engine cars to electric vehicles, the demands for complex vehicle maintenance will decline, so there is a load of people out there with good mechanical and electrical skills who could be easily retrained to work in complex platforms, because the world of work is evolving. As Sir Simon said, it is undeniably challenging, but of course challenges often bring out the best in us. It is forcing companies like BAE and Babcock to think laterally and innovatively about how we bring people into the workforce and keep them once they are there.

Q100 Sally-Ann Hart: So reskilling and skilling up. We have looked at recruitment, but is retention a problem? If so, what can you do to improve it?

Sir Simon Lister: Retention is something that we always pay attention to, because it is much more efficient to keep hold of a highly trained individual than to replace them. It is a basic economic and operational fact that a lot of skill walks out the door when someone leaves, and that is something to avoid. Retention is something that we pay very close attention to, so we are always looking for very good feedback from our workforce representatives about how the world of work is working for the workforce. Is it an attractive place to come into work? Are our people listened to? Does their view matter? Those are the softer sides of creating an attractive workplace to improve retention for the longer term. On the Clyde, we are modernising at pace. We are modernising the technical sides, of course, but we are also modernising the social sides—how people feel about work. We are listening hard to the workforce about what they want, all with the aim of improving retention.

Chair: I am really sorry, but we are going to have to move on from this session as we have the Minister waiting to join us. Thank you all again for hosting us the way you did on those two days at Govan and Rosyth, and for coming down here for today's session. I am sorry that we were not able to have our session in Rosyth, but I think we made up for it here. Thank you once again. Again, if there is anything that you could usefully contribute to this ongoing inquiry, we would be pleased to have any sort of supplementary evidence. That would be very useful and helpful to us.

Examination of witnesses

Witnesses: Ivan McKee MSP, Rory McGregor, Scot McClelland and Gordon McGuinness.

Q101 Chair: The Scottish Affairs Committee "Defence in Scotland" inquiry



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resumes with Minister McKee. Ivan, please introduce yourself. Introduce your colleagues, too, if you don't mind, and make anything by way of a short introductory statement.

Ivan McKee: Thank you very much. I am Ivan McKee, and I am the Scottish Government Minister for Business, Trade, Tourism and Enterprise. I am accompanied by Rory McGregor and Scot McClelland from the Scottish Government, and Gordon McGuinness from Skills Development Scotland. I would like to take a few minutes to introduce their appearance this afternoon.

First of all, I would like to say that the Scottish Government welcomes the opportunity to provide evidence to the Scottish Affairs Committee inquiry into military shipbuilding in Scotland. Building on our rich shipbuilding heritage, as we all know, we believe the future for Scottish shipbuilding is very strong. The latest official statistics saw Scottish shipbuilding generating more than £400 million of GVA in 2019, a 45% increase over the previous year, and Scotland contributed 19% of total UK shipbuilding output. The sector supports direct employment of approximately 7,500 highly skilled people in Scotland, with many thousands more supported through the supply chain, and the major shipbuilding yards in Rosyth and on the Clyde continue to deliver substantial programmes of work for defence-related programmes, while a host of smaller facilities throughout Scotland service the ship repair, fabrication, fishing and agriculture sectors.

The Scottish Government welcomes the publication of the national shipbuilding strategy refresh in March. We fully recognise the future opportunities for both naval and commercial shipbuilding, and we support the overall direction and ambition of the strategy. The provision of the 30-year shipbuilding pipeline, I hope, brings the long-term visibility and confidence to support industry to invest in their future capability and maximise the opportunity for Scotland. The UK shipbuilding skills taskforce has the potential to build on the existing world-class companies, expertise and infrastructure we have here in Scotland, and we are very pleased that Paul Little of City of Glasgow College has been appointed as the taskforce's chair. I had the chance to meet Paul in July and further discuss with him the taskforce's early priorities. The strategy also recognises that there are opportunities for the shipbuilding and marine sectors associated with the transition to net zero, and I believe that the industry in Scotland could benefit from these.

Effective implementation and delivery of these commitments is key to ensuring we maximise the economic benefits for the whole of the UK, and my priority is to hold the UK Government to these commitments to ensure that we maximise the benefits of the strategy for the industry in Scotland, given that our significant shipbuilding capabilities provide nearly all of the current Royal Navy surface fleet. At Government level, we are pushing for more real and meaningful engagement with the UK Government, and although we have been encouraged by the level of engagement on the strategy refresh to date, it is critical that this continues. Collaboration and transparency between Government and industry is also key, and



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something I am keen to promote and support further today. Thank you very much for inviting me along, again, and I am happy to take any questions.

- Q102 **Chair:** Thank you, Minister, and to your colleagues, please feel free; if there is anything you could help the Minister with, maybe indicate that you wish to come in. We will be able to see you on the screens, and you will be invited to participate.

You have sort of talked about it in your opening remarks, Minister, but just how important and valuable is military shipbuilding to the Scottish economy? You mentioned some figures there, but there is culture there too, isn't there? There is heritage; there is just something that Scotland does well when it comes to doing this type of activity. Could you maybe explain to us just how important this is, particularly in the view of the Scottish Government?

Ivan McKee: Absolutely. As indicated, it is an important sector and the numbers are significant, but as you say, they do not tell the full story. It is a heritage that goes back for decades—centuries, indeed—and we are very proud of the capability that the manufacturers and, indeed, the supply chain exhibit on the Forth and the Clyde. It is also, of course, important to recognise that it is significantly important for the UK as a whole. As indicated, almost all the current Royal Navy surface fleet was manufactured on the Clyde, so it is a sector we see as being critical not just for its economic importance but for its iconic importance as part of Scotland's industrial heritage and, indeed, our industrial future.

- Q103 **Chair:** It is one of these issues that is exclusively reserved; defence is something that is within the exclusive competence of the Westminster Parliament. We are obviously looking at this today and how it impacts Scotland, and we have seen lots of activity from the UK Government in the course of the past few years through the national shipbuilding strategy and the refresh—which you alluded to—mainly around the Type 26s and Type 31s at Govan and Rosyth respectively.

What sort of communications and contact do you have with colleagues in the Ministry of Defence about some of these strategies and what the activities are in Scotland? Is it something you would expect to hear from? During the strategy refresh, for example, did the MOD get on the phone to you to tell you what they were planning to do? How is communication conducted? Maybe you could give an outline from your point of view.

Ivan McKee: Yes, sure. It's a good point. Yes, of course, defence is reserved, but so many of the other issues roundabout the shipbuilding sector in Scotland are devolved. I know we are going to come on to talk about skills. There is the economic development brief, of course—we work extensively on that in the Scottish Government and through our agencies—and of course there is the wider economic impact of the sector. So, while, as you say, the defence piece of this is reserved, the implications of those decisions are significant across wider aspects of devolved competence in Scotland and, of course, devolved decisions can



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have a critical impact on the future of the sector. So I think that alignment and coherence is important.

I think it's fair to say that our engagement with the UK Government on strategies and initiatives can be patchy at times, but in this case I think it's fair to say that the work on the strategy refresh—we were engaged in that process, which was very welcome, and we are very keen to continue that engagement and to work with the UK Government on aspects of it as we go forward. I have already spoken about Paul Little, who of course is the principal of City of Glasgow College and chairs the skills taskforce. Many Scots are engaged in the shipbuilding enterprise group. And we are keen to continue with the level of discussion and engagement as the programme and the strategy develops, as it is taken forward.

Q104 Chair: I am grateful for that. This will be the last question from me for now. The skills taskforce is obviously doing a very important job and you, as Business Minister, obviously have responsibilities for the development of skills in Scotland. Do you feel that what is coming out of the skills taskforce from the Ministry of Defence is aligned with your own priorities? Are any conversations ongoing so that these can be matched up in order to deliver a productive and efficient workforce for UK defence construction in Scotland?

Ivan McKee: Yes, it's hugely important. I will just correct you at the outset: I have responsibility for many things, but skills isn't one of them; my colleague Jamie Hepburn has that responsibility. But of course, as Business Minister, I recognise and see every day the absolute criticality of that to all of Scotland's businesses, and shipbuilding is no exception. We do work very closely with industry on this, and of course SDS—Skills Development Scotland—is very much in the frontline of those engagements. Colleges in Scotland are very engaged in this, as are our universities. In Scotland, we are very joined up in that, because of our size and ability to get the right people in the room quickly. So those conversations happen at a very regular pace.

It is also worth recognising that we see implications—both opportunities and challenges—beyond the shipbuilding sector with regard to skills. One place where we are encouraging cross-sectoral discussion is with regard to the emergence of Scotland's extremely successful offshore wind energy industry. Many skills are transferable between shipbuilding and that sector and, indeed, the oil and gas sector. So we work hard to encourage co-operation and sharing of information and future plans across multiple sectors where there are common skills. Something that has already been highlighted is the preponderance of digital skills. Their criticality in shipbuilding going forward is hugely important. That is another aspect of the broader skills landscape in Scotland. We make sure that the shipbuilding requirements are reflected in our plans there. Gordon may want to comment on that as well.

Gordon McGuinness: First, thank you for the invitation, Chair. I think what we are looking at is the modernisation of skills—Sir Simon touched on it earlier: the need to update and refresh skills. We are seeing that



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coming forward in new qualifications, and these equip individuals to work not just in shipbuilding but across advanced manufacturing activity. We are undertaking a lot of work with the regional colleges both around the Govan yard, on the Clyde, and at Rosyth, so there are strong and effective partnerships there. With the national shipbuilding strategy and that longer-term vision, the educational institutions can invest and develop facilities. I know that West College Scotland, for example, are investing quite heavily in their infrastructure to support activity on the Clyde. We see that happening and, as I say, there is an updating of the curriculum and technologies used within the education system.

Q105 Wendy Chamberlain: I thank you for your time today, Minister, and those with you. It was very positive to hear of the consultation and discussion that has taken place with the UK Government in relation to the strategy refresh. What do you think of the direction and approach of the publication?

Ivan McKee: As was mentioned, I also had a productive meeting with Baroness Goldie on the refresh a few weeks ago, which was very welcome. We broadly support the refresh strategy; we see many things in there to be encouraged by. We have spoken about skills; we see progress with regard to procurement—although perhaps not as much as ourselves or industry would have liked. It is good to see the pipeline being laid out over a 30-year period. As has been indicated already, that allows the businesses to focus on building a product line rather than thinking specifically in terms of single programmes. However, it is important to recognise that it is early days. The refresh is recent and there are things still being worked through. Shipbuilding is a sector with long timelines, so we watch intently to see how things develop and we remain engaged in the process as best we can.

Q106 Wendy Chamberlain: Thank you for that, Minister. In the last session I asked our witnesses from BAE and Babcock about the fact that both they and other organisations in the sector, plus the Defence Committee, have spoken about the MOD's approach to not building in the UK first, or looking at international competitors and tenders. What is the Scottish Government's view on that?

Ivan McKee: Our perspective on that is that the UK Government should be working with the sector in Scotland and the UK to place those orders in the UK. We think that is clearly allowable under international procurement regulations because of the nature of the products. We think it gives stability to the sector. It is very different from commercial shipbuilding; there are obviously procurement rules and regulations that apply in military shipbuilding—it is a different environment, in that sense. We are very supportive of as much of that work going to Scottish and broader UK facilities as possible. We think, as has been indicated, that that stability of pipeline allows for investment and partnership working, which enables a better product and better value for money for the taxpayer. It also allows for a stronger focus on export opportunities if that stability of stock or demand is in place.

Q107 Wendy Chamberlain: Thank you. Beyond skills, which we have already touched on—I think there may be later questions in this session—what do you see the role of the Scottish Government as being in relation to delivering this refresh?

Ivan McKee: We are very closely engaged with BAE and Babcock to support with investment where required. Scottish Enterprise has invested a total of about £4 million in recent years in both those facilities. We work closely with them, for example, with regards to the Arrol Gibb innovation centre at Babcock. I visited BAE in Govan just two or three weeks ago; it was great to look around the site and understand the investment plans that they have got in place. I will stay close to them and work with them on more investment opportunities. We will also work with them on the broader maritime strategy, for example, the work that we are doing on the Clyde Mission, and the maritime opportunities that highlights. That engages with broader maritime businesses both on the military and commercial sides, and on how we can encourage businesses to work together and share expertise and technology where appropriate. It is also about how we work with the sector, as I have indicated, and how it relates to other sectors that are important in Scotland, in particular where a transition to net zero is coming and where we can work with the sector to help it learn from other expertise in Scotland. It is about working through our colleges and universities to support the sector and the aspirations of the strategy, and with SMEs in Scotland to develop the supply chain to best effect with the enterprise agency, so that those supply chain businesses are as well prepared as they can be to support the sector and the strategy. There is a whole number of interface points where we are very engaged and very keen to support the strategy and the sector in Scotland.

Q108 Wendy Chamberlain: Does that include Shipbuilding Enterprise for Growth? Do you see a role for the Scottish Government in that?

Ivan McKee: Yes. We are very keen to be as engaged as possible. We understand that there are Scottish individuals and businesses represented on that; the Scottish Government per se are not, but we are very keen to be engaged and involved as closely as possible. If there were a place for us in the big group, we would be happy to take it up.

Q109 Wendy Chamberlain: So the Scottish Government would actively seek to be part of that group?

Ivan McKee: Our official comment on that is that the group is largely industry-led and interfaces with Government. Clearly, if industry felt that it wanted to keep it that way, that is absolutely fine, but the Scottish Government are keen to be engaged to the closest extent that they can be.

Q110 Wendy Chamberlain: So that is about potentially being in the group, but also just about ensuring that, as another stakeholder, you are consulted and kept abreast of where things are.



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Ivan McKee: Absolutely. As I say, I visit businesses every day of the week, and shipbuilding is no exception. We work closely with the sector.

Q111 **Deidre Brock:** Good afternoon, Minister, and welcome to you and your colleagues. I want to ask about the refreshed strategy. You indicated that you are broadly supportive of it, but will you tell us what you think the impact on the national shipbuilding strategy refresh would be if the fleet solid support vessel procurement went to an international bidder?

Ivan McKee: That would be concerning. We hope that that is not the case. We will find out in due course what the situation is. You have already heard from BAE, Babcock and others with regards to their work to secure that work for Scotland and the UK. We are supportive of that. If that were not to be the case, it would be problematic, not just because of the economic impact but because of the implications more broadly—it would be unhelpful in terms of confidence in the strategy going forward.

Deidre Brock: Indeed. Would any of your colleagues like to comment?

Scott McClelland: I want to echo the comments of the Minister. As you heard in the evidence provided by the industry, the implications of awarding a contract under the 30-year shipbuilding pipeline to a yard not in the UK are that confidence in the industry and investment for the future to meet future demand would certainly be dampened.

Q112 **Deidre Brock:** I see. Thank you. Minister, in your evidence you noted that shipbuilding capacity and its resilience are an ongoing issue. This question was put to the previous witnesses as well, but can I ask your view of what exactly the issues with shipbuilding capacity and resilience would be in that event?

Ivan McKee: Clearly, the stability of pipeline is critical, and your other witnesses identified that. Coming from a background of 30 years in manufacturing before I came into politics, I fully understand, and live and breathe, that. Having that visibility of pipeline and the security of demand, which allows you to make investments and to plan for the future on skills and other factors—investment in facilities, equipment and digital technology—and being able to keep design teams busy as we move through the various phases of this and to design componentry that can then be reused in future vessels and programmes is all very important; it gives that stability that allows the sector to avoid the feast and famine scenario, which is disruptive. Again, you have heard about when skilled individuals leave the sector, and having to replace them is a very expensive, time-consuming and difficult process. You want to keep everyone engaged on a stable workload. For all of those reasons, that stability issue is important. It allows the sector to increase capacity and capability incrementally over time and to build a strong and healthy ecosystem around them that otherwise isn't the case.

Q113 **Douglas Ross:** Good afternoon, Minister and gentlemen. Perhaps I could start with Mr McGuinness. We heard from our previous panel about the work that BAE and Babcock have done with apprentices and bringing more people on. Some really encouraging numbers were given to us. Can



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you just explain from the SDS side how you work with the likes of BAE and Babcock, how that work has progressed in recent years and how you see it going forward, because there is clearly significant demand for these places?

Gordon McGuinness: We have been engaged with both businesses over a good number of years. They both have relatively mature apprenticeship programmes, but over recent years, and certainly with the additional confidence of that longer-term pipeline that we heard about from Sir Simon, in terms of the numbers that they are investing in—170 young people started in the BAE yard last week—there is a real confidence there.

We work with them in an account-managed relationship, along with Scottish Enterprise. So, there is a shared discussion with the company, and it is a very mature relationship. We get to understand their challenges. They have a very keen interest in looking at their equality and diversity in terms of their future workforce, and we will look through the strategies they have. Sir Simon referred to the access programme that we have been developing with colleagues on the Clyde and working with the local authorities around the region and with the two regional colleges—City of Glasgow College and West College Scotland.

That is creating a foundation apprenticeship model. We will do more work with the schools. Young people will probably undertake the vast majority of our first-year apprenticeships through our relationship with the colleges. It is not within the shipyards, so it is much more attractive and allows different young people—a different client group, I guess—to come and test out what a career in the sector would look like. We are piloting that this year with up to 26 young people. We'll get a lot of learning from that, and there is a lot of interest from Babcock as well, in terms of the work that they are doing at Rosyth.

Sir Simon also referenced the investment they will make in their applied shipbuilding academy, and we will work with the company and Scottish Enterprise in terms of how we develop the programmes there. We are looking internationally at work that has been done in places such as, for example, Flinders University, which was referenced earlier in terms of the work they have done in partnership out in Adelaide. They have done some interesting work in terms of the digital capabilities of existing staff. We are looking to learn from that, as well as, obviously, working with Scottish universities and the new developments at the National Manufacturing Institute out at Inchinnan, along with Strathclyde University.

So there is a deep relationship. They have direct contracts from SDS in terms of their modern apprenticeship programme and they also access, as was referenced several times earlier, the graduate apprenticeship programme, which has been a more recent development in Scotland, but it has certainly been well received.

The other thing to say is around helping young people to understand the diversity and breadth of opportunities. It is not just the traditional welding and fabrication; we will have apprentices in data analytics, digital

applications, freight, procurement, IT and telecoms, and management. We are trying to use the whole breadth of the apprenticeship programme in Scotland to create and show the opportunities that are available.

Q114 Douglas Ross: Particularly for the young people applying to go into shipbuilding, and with BAE and Babcock, do you know what the gender split is? You will have heard towards the end of the previous evidence session that there is still a significant issue with recruiting young females into the industry and moving away from this image that it is all about greasy, dirty boiler suits. In fact, as you have just said, there are a number of opportunities in other aspects of the work that BAE, Babcock and others do, rather than just welding panels and suchlike.

Gordon McGuinness: There remains a challenge in terms of occupational segregation, and that is one of our interests in the work we are doing around the foundation apprenticeship. There are contacts at both shipyards who are keen to do much more through STEM initiatives and school visits to demonstrate the opportunities that are there and to break some of the perceptions that Sir Simon referred to in his input.

We will do more work with guidance teachers within schools, but also with our own careers advisers and West College Scotland. They have an interesting concept: to try and develop a drafting programme that opens up much more opportunities with much more insight into the yards. I think that through that, an intensive approach from the Scottish Apprenticeship Advisory Board and a lot of work around equalities, we will invest into that programme as well.

Q115 Douglas Ross: Finally to yourself, Mr McGuinness, in terms of the numbers we heard earlier, there was significant demand for these apprenticeships—indeed, we are hearing that there were far more people than could be facilitated. What do SDS do for the young people who are maybe not successful in this opportunity but have shown a real desire to get into the industry? How are they captured and held with their interest, and where can they move to continue opportunities in that type of career?

Gordon McGuinness: We work through our own careers advisers in this area. It is an area that we are discussing with not just BAE Systems, but other yards on the Clyde. I do not think Sir Simon mentioned it in the footage I saw earlier on, but we have a piece of work being undertaken around Clyde Mission just now that takes into account other yards and the supply chain within the Clyde, again with the intention of opening up more opportunities—companies like the Malin Group in Clydebank, which are the ship architects—to show the range of opportunities that are available and to develop a programme of awareness around these activities.

An interesting model was developed in the Solent around a kind of clearing process, with companies actively sharing the data from young people who had applied but had been unsuccessful. Some of that model is available through our own systems, through apprenticeships.scot. We want to learn from that and see if there is other work that we can do with training



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organisations like the regional colleges and some of the private organisations, because that is one of the challenges that some of the smaller companies have: attracting talent, and talent of the right calibre. There are lessons to learn, and I think that is one of the things from the UK shipbuilding skills taskforce that we could pick up, to see those regional differences that exist and to see best practice.

Q116 Douglas Ross: Thank you very much. Minister, is there anything you want to add to that?

Ivan McKee: No, I think Gordon has covered that extremely well.

Q117 Douglas Ross: Minister, I just want to clarify, because it does not always happen, but I think you have been quite positive about the engagement, discussion and debate you have had with the UK Government on this.

Ivan McKee: Yes, I think that is the case. As I indicated earlier, that is not always the case, but I think that, in this instance, it is fair to say that we have had some good, constructive discussion.

Q118 Douglas Ross: Do you think that, generally in Scotland, there is a healthy debate about shipbuilding?

Ivan McKee: A healthy debate? I think there is a recognition of its importance, and I think that, as I indicated, the Scottish Government and its agencies are very focused on working closely with the sector to ensure it is as successful as possible.

Q119 Douglas Ross: You are here today representing the Scottish Government, which in just 13 months' time wants to take us into another independence referendum. Quite often the military footprint in Scotland—defence in particular, and shipbuilding for defence—is part of that debate. Would you accept that sometimes the debate about shipbuilding and about independence and its future is not particularly healthy and, in fact, some people can be put off commenting or getting involved because of the discussions about this, particularly online?

Ivan McKee: I do not understand what you are getting at there—

Q120 Douglas Ross: I will clarify, Minister, because I want you to be sure what I have asked. We are having a debate about shipbuilding in Scotland, and you are representing a Government speaking about that, but that Government also took us through what most people would accept was a divisive independence referendum in 2014.

Ivan McKee: I would have to challenge that; it was absolutely the opposite of that. It was a hugely important democratic process that enabled larger numbers than ever to take part in the democratic process, and it was almost exclusively a civil-mannered and well-managed process. Yes, there are always incidents, but to characterise it in the way you have is completely incorrect.

Q121 Douglas Ross: But you and your Government want us to do that again in Scotland in 13 months' time.



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Ivan McKee: We want to have a democratic debate. Like you, I am a democrat, Mr Ross.

Q122 **Douglas Ross:** Would you call out any harassment of people who are trying to—

Ivan McKee: Absolutely.

Q123 **Douglas Ross:** Do you know who George Allison is?

Ivan McKee: I do not believe I do, no.

Q124 **Douglas Ross:** George Allison is the editor of the UK Defence Journal, and he has also submitted evidence to the Committee's inquiry on military shipbuilding in Scotland. He has tweeted within the last hour that he is "genuinely worried"; this morning, he found that a harassment campaign is being conducted against him. People have been posting his details and asking where he lives because of comments he made about military shipbuilding in Scotland as part of his work as a journalist on the UK Defence Journal.

Do you think that is acceptable? As a representative of the Scottish Government, would you call anyone out, including "IndyRascle", who the page highlights as delivering a lot of the abuse? What could you do to encourage others to be informed about and to get involved in this debate, but to do so in a respectful manner?

Ivan McKee: Of course we condemn any harassment that takes place. As I said, I am not aware of the individual or individuals you are talking about, or what has or has not been done or said, but of course we think harassment has no place in society or in this debate. We absolutely encourage everyone to take part in the debate in a civilised manner, and to find out information and discuss the issues in a democratic way. It is hugely important for the democratic process and, as I said, we do not think there is any place for harassment in that regard. If there is a situation, I would encourage the individual to take the appropriate steps to get the authorities to identify what has happened and deal with it appropriately.

You and I both know about that in politics, Mr Ross—I am sure you have had situations, and I have also had situations that I have had to inform the authorities of, because of people's behaviour online or elsewhere.

Q125 **Douglas Ross:** Mr Allison has reported this to the police. He stated in an earlier tweet today, "I found out that I am being targeted by a nationalist page run by"—I will not name the individual, although it is on Twitter, and the page is called "IndyRascle". The offence Mr Allison had apparently done was posting a list of ships that are being built in Scottish shipyards. The post and its comments encouraged people to visit Mr Allison's personal Facebook accounts and post abuse.

You said earlier, Minister, that it was a very respectful debate back in 2014. I did not find the same, but I respect your belief that it was different. If we are to have an independence referendum in the next 13



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months, as you and your Government would like to see, surely this type of behaviour from nationalists and independence-supporting individuals in the debate we are trying to have in this Committee is absolutely wrong. What more can you and your Government do to encourage others to have a respectful debate, rather than threatening people or threatening to post details of where they live online, and attempting to shut down an honest, up-front debate that people are trying to have about naval shipbuilding in Scotland, as we are trying to have in this debate?

Ivan McKee: As I have made clear, harassment has no place in this debate. There is a healthy and well-informed debate to be had about the future of Scotland that we all care about and have different views on, but it is important that the people of Scotland have the opportunity to decide on that. As I said already, there is no place for harassment from nationalists or Unionists or anyone else in that debate. I am sure you would take the same view—*[Interruption.]* I have witnessed this myself, where Unionists are engaging in similarly unacceptable behaviour.

Q126 **Chair:** Thank you, Minister. I will also re-emphasise the point that this Select Committee is taking this very seriously. We are approaching it as positively and respectfully as we can. Of course, we abhor any comments such as that about the work of this Committee. That should be noted for the record, too, which it now duly is.

Turning back to the substance of your responsibilities, Minister, I want to refer briefly to the SME sector and get your views on a couple of things. I think you would agree that the supply chain and the SME input into the defence infrastructure of Scotland is critically important. Something that came out of our initial inquiry into the general defence footprint in Scotland is that the MOD has awarded only something like 2.5% of all contracts to SMEs in Scotland. In England, for context, that figure is roughly 44% to 46%. Is there anything more you could do to make some sort of representations to the UK Government so that, when they are thinking about the supply chain and the involvement of SMEs in some of these contracts, they could think more about Scottish SMEs?

Ivan McKee: Absolutely, and thank you for raising that point. I saw those numbers. Correct me if I'm wrong, but my understanding is that, of the total contracts awarded to SMEs, only 2.5% were awarded in Scotland, which is obviously far, far below what you would expect in that context. A significant disproportionate number were in the south-east of England, based on the size of the sector and, indeed, the relative size of the economy. That is a concern.

There are a number of aspects to that. Number one: we will engage with the MOD to highlight that challenging statistic and encourage it to take steps to rectify that going forward. Secondly, we will continue to work with the Scottish supply chain. Businesses that are in the sector are keen to be engaged in the sector, through our enterprise agencies and others, to ensure that they are tooled up, if you like, to take advantage of those procurement opportunities and that they understand how to do so. We will encourage them and work with them to do that. Clearly, we will also

continue to work with BAE, Babcock and others in Scotland to develop their Scottish supply chains so that more SMEs have opportunities in the sector.

It is also worth highlighting that we take this area very seriously in our own procurement, within Scottish Government, where we have a £14 billion annual spend across the Scottish public sector; I have ministerial responsibility for that. Because of steps that we have taken, SMEs in Scotland now have a higher percentage of the procurement spend in the public sector than they have with the overall economy. It is something around about 45% or 46%, which is hugely encouraging and far in excess of the 26% or 27%—I think—across the rest of the UK. We have taken significant steps to ensure that procurement benefits SMEs in Scotland and we encourage the MOD to do likewise, to ensure that SMEs in Scotland get a fair crack of the whip.

Q127 Chair: Maybe Mr McGuinness could also help us out with this one. We had representatives of Scottish SMEs who have been successful in securing contracts; we also spoke to some who were not as successful and came away empty-handed. The common experience was one of frustration and finding that it was very difficult to engage productively and constructively with the MOD in the acquisition of those contracts. Is there is any sort of resource that would be available for giving advice to Scottish SMEs, so that they can pick up that number and maybe be better prepared to negotiate with the MOD to secure some of those contracts?

Gordon McGuinness: I am sure that there is, Mr Wishart. It is maybe not an SDS offer. We have colleagues in Scottish Enterprise and the Scottish Manufacturing Advisory Service. Both Babcock and BAE Systems are keen to do more around local supply and sourcing as part of the social value work that was touched on earlier. I am pretty sure there has been activity, but I can engage with the SMAS and see if there is other work that can be done in this area. Again, coming back to the security of work, with that longer-term pipeline, investment is required by the supply chain. That is more likely to happen now, given that they are moving away from the kind of feast and famine that we have seen in the past.

Ivan McKee: Just to follow up on that point, we are happy to share with the MOD the work that we have taken in the Scottish public sector to significantly drive up the amount of work that goes to SMEs through our supplier development programmes and other activities. If it is interested in seeing what we have successfully done in that regard, we would be delighted to share it with the MOD.

Q128 Chair: Lastly from me and the Committee, we all recognise just how important this sector is to Scotland; it is something that we do particularly well, with the excellence we observe from BAE in Glasgow and Babcock in Fife. There are a number of big decisions coming up. We touched briefly on FSS, which will be decided in the course of the next year; beyond that, there is the new generation of frigates and who knows what. This is part of the constant drumbeat that we are hearing. What have you got available from your office, Minister, to make



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representations to the MOD and the UK Government for these contracts to keep coming to Scotland? What assurances can you give them that they will be supported by the Scottish Government and that we have the skills and resources to continue to keep a full order and continue the excellence that we have here?

Ivan McKee: There are a number of points here. The importance of that stability of demand and its longevity and visibility are hugely important. We are very closely engaged with the sector in Scotland across all aspects—investments, skills, digitisation, net zero, supply chain and so on—to ensure that the sector and the primes within it are well placed to be able to bid for that work. However, we also of course will make that case very strongly and continue to do so to the MOD to ensure that it is aware of that and aware of the engagement and support of the Scottish Government in supporting the sector in Scotland.

Chair: Excellent. Thank you ever so much, Minister—it is good to see you again. This is the second time you have been before the Scottish Affairs Committee, and you are always welcome in the future. If there is anything else that you feel you could usefully contribute to this ongoing inquiry, we would be grateful for any further evidence. For today, thank you for appearing in front of the Committee.