

## Scottish Affairs Committee

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

Tuesday 6 December 2022

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

Defence Committee member present: Mr Kevan Jones.

Questions 166-257

### Witnesses

**I:** Rt Hon Ben Wallace MP, Secretary of State for Defence, Ministry of Defence, Vice Admiral Paul Marshall CBE, Director General, Ships, Defence Equipment and Support, Ministry of Defence, and Rear Admiral Rex Cox, CEO, National Shipbuilding Office.

## Examination of witnesses

Witnesses: Rt Hon Ben Wallace, Vice Admiral Paul Marshall and Rear Admiral Rex Cox.

Q166 **Chair:** Welcome to the Scottish Affairs Committee for our last session on military shipbuilding in Scotland. We are delighted to have the Secretary of State with us this afternoon to answer our questions. I will let him introduce himself and his two colleagues and make a short introductory statement.

**Mr Wallace:** Thank you, Mr Chairman. I am the Secretary of State for Defence and a former member of this parish. I am joined today by Vice Admiral Paul Marshall, our senior reporting officer for our military programmes such as the Type 26 and Type 31 and other vessels in the Navy. Rear Admiral Rex Cox is the head of the National Shipbuilding Office and therefore has overall responsibility for the national shipbuilding strategy.

Q167 **Chair:** We are glad to see you here, Rear Admiral Cox, and grateful for all your hospitality, and for helping us out when we visited Babcock and BAE Systems a few months ago.

Secretary of State, we have been looking at this for a few months now. We have had the opportunity to visit both sites in Scotland. All of us—I think I speak for the whole Committee—are impressed and knocked out by the development of the skills and expertise that we see both on the Clyde and on the Forth. We are all delighted by the announcement about the five further Type 26s. Perhaps you could tell us a little bit about that announcement. We see that it supports something like £248 million-worth of work in Scottish supply chains. How many Scottish suppliers will be involved in the work?

**Mr Wallace:** First, it is billions of new money and new orders. The overall target cost for batch 1 and batch 2 is £4.2 billion of spend. That is a very large order indeed for one of the most advanced ships in the world, with a design that has attracted support and purchase from both Canada and Australia. All of that has a very successful consequence for British shipbuilding and for our supply chain. The gearbox that will be on all ships, for example—certainly on the Australian ships, and hopefully on the Canadian ones—is made in the United Kingdom.

It is really important that we lead the way by showing that we can deliver a first in class—we should always put that health warning on it. A first-in-class and complex warship is never easy. Some people think it is like pressing a button, and off comes a brand-new Mini from a production line, but it is not easy. You have to make sure it works. All the specialist equipment will be fitted in Scotstoun. She floated up only a few days ago from Govan. You have to make sure it works, and have to deliver the capability. The Type 26 will protect 1,700 jobs there, and 4,000 across the rest of the UK. It has played a part in design manufacturing in 86



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companies, and 64 contracts have been awarded to UK-based companies. I have the UK figures. Admiral Marshall might be able to tell us if there are any Scottish-specific numbers.

**Vice Admiral Marshall:** Sixty-four companies out of the 86 are definitely in the UK. As the Secretary of State has said, it is an international supply chain. I can give you two big, significant and important items that are definitely sourced from Scotland. The first one is the stabilisers, which are from Dunfermline, and the second is the mission bay doors, which are a significant engineering feat from MacTaggart Scott, close to home near Edinburgh.

Q168 **Chair:** Vice Admiral Marshall, this issue is important to the Committee, because we have looked at supply chains closely in a number of inquiries and reports. Our understanding is that this is £240 million of work. Correct me if I have got these figures wrong. That is compared to £749 million in Scotland. We are doing the best we can to get that type of investment and support to the Scottish supply chain. Is there more that we can do?

**Vice Admiral Marshall:** In terms of what more we can do, we put a heavy premium on social value in the contracting phase, and a big part of that is in supply chain development and encouraging our suppliers to develop the local supply chain for small to medium-sized enterprises. The Type 26 was a single-source contract, with BAE, and the social value framework did not apply. For the Type 31, we definitely applied those rules; we incentivised the development of the supply chain for the Type 31. We did similarly for fleet solid support. I see us encouraging the prime contract through the social value framework, going forward, and the Secretary of State has given us very clear direction on how we are to apply those rules to maximise benefit for the whole UK.

Q169 **Chair:** I suppose a major development in all this is the most impressive new hall and hangar that is being built by BAE at Govan. If this had been done a little bit earlier, could we have delivered that hall and been in a better position when looking to further work as we continued with the impressive drumbeat of orders?

**Mr Wallace:** Yes, but in the past, when we have constructed the contract, we have not designed it well enough to incentivise bidders, or to or bidders to invest in our yards. I wanted to know why other yards, in Germany, Holland, Norway, Spain and France, win sizeable awards when ours don't. What do we need to do to make them more productive, more competitive and more modern? On FSS, for example, I took the strong view that whoever was to win that had to invest considerable sums of money, not just in the skill base but in the bricks and mortar, to bring it up to date.

When I visited Govan only a couple of weeks ago, I was delighted to see the Type 26 as she went on to a barge—it is a case of being wheeled out nowadays. I have now been around most of the yards in the UK—most of the big ones, for sure. You see plasma cutters, proper steel rollers, proper



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laser cuts—things that actually indicate a modern, productive yard. While Govan is almost a special case because its Navy order book is so big, ultimately we want our taxpayers' money to stimulate modernisation, so that when one day it does not have a Navy contract, it is in pole position to win other contracts. The main thing that we need to do is continue to invest. When we are placing a £4.2 billion order, I expect these big primes, with very large profits and shareholding bases, to invest in their yards on behalf of Scottish taxpayers. That is important.

**Q170 Chair:** To clarify, this was a challenge to the shipyards—to demonstrate that they could secure investment in building things such as the impressive hangar that we see.

**Mr Wallace:** Yes. Babcock, for example, recognised the importance of having a covered hangar at Rosyth in order to not lose days or weeks of work when weather was—

**Q171 Chair:** We know the purpose behind it. I am just intrigued by your response that this was set out as a challenge to the yards—that they should improve their facility in order to secure the order. Is that right? Is that a fair characterisation?

**Mr Wallace:** Yes, but on both infrastructure and skills, because ultimately, long after you and I have gone, that is how we will survive as a vibrant, modern shipbuilding industry.

**Q172 Chair:** Did they acknowledge and accept that those were the conditions for the type of arrangement they had with Government?

**Mr Wallace:** Some do. Then it is open to tender and people can bid for a contract. Some we saw put more on the table than others for investing in their workforce and yards, and that is definitely one of the social value criteria we look at.

**Q173 Chair:** I cannot remember when it was you served as a diligent and conscientious member of the Scottish Affairs Committee. I think it was when the 13 Type 26 frigates were first promised; it was around 2016 or 2017, if my timeline is correct.

**Mr Wallace:** I was on this Committee when Tony Blair was the Prime Minister.

**Q174 Chair:** Jeez. So it was a long time before then. I am just wondering, when the original contract was committed, how much that would have cost, what resource would have gone with it, and how that compares to what we are getting now, which is the eight Type 26s and the five Type 31s. Is there a difference—could we even call it a deficit—between what was originally pledged, and what has been delivered and committed to now?

**Vice Admiral Marshall:** In 2015, the defence review was clear that we were going to go from a class of 13 Type 26s, highly specialised but very expensive, to a class of eight and, at the same time, launch a competition—introducing competition into the supply chain and the supply base—for five Type 31s. To your point about going quicker, this gave us

an opportunity to open up parallel shipbuilding programmes so we could deliver greater volumes of shipping for the Navy and increase industrial capacity in the UK.

The eight plus five totals those original 13 ships. In addition to that, in 2015 we placed an order for five OPVs, also built in Govan, while the Type 26 design was being readied for production. So it is a total of 18 ships that will have been produced in Scotland over that period, and now through to the 2030s with Type 26.

**Q175 Chair:** What I am trying to get at is if we had the 13 Type 26s as promised and committed to back in 2015, compared with what we have just now, wouldn't the deficit be in the region of £2 billion to £2.5 billion? Or are these figures not accurate?

**Mr Wallace:** As in the amount we are now spending, as opposed—

**Chair:** Yes, as opposed to what we would have spent.

**Mr Wallace:** I don't think you can monetise it in that way, because one of the reasons you are buying less is that the ships are more expensive. In a sense, it is not entirely that you are buying less because you have decided to cut the budget; it is that the cost, probably, from when you first—when was the Type 26 first conceptualised?

**Vice Admiral Marshall:** It was first conceptualised about 18 years before the contract.

**Mr Wallace:** If you remember, the Type 45 air defence frigate was originally going to be an order of, I think, 13. I remember going to visit Govan in 2006, when the first one was being commissioned. I think that ended up with six—

**Vice Admiral Marshall:** Indeed.

**Mr Wallace:** So it is not unusual for the class of ships to be shrunk. That might be because of inflation—cost increases. It might be because, over an 18-year period, the threat to our ships changes, and you might have to have fewer and spend more on weapons systems or defensive aid suites. It might be because of programme mismanagement—I am not pretending that has not been a problem in the past—that costs go up. Or you might have a defence review and decide you are going to focus on more of something else or less of something, and that can change it.

What we try to do—I am determined to try to do this, and I think both the gentlemen next to me have got this right—is to batch, rather than lock ourselves into an unrealistic number that we then have to renegotiate. By doing that, you get the best value, and you can readjust the programme without necessarily being locked in. We only advanced to batch 2 of Type 26 when we were pretty confident that batch 1 was in a good place. There were some problems with delivery in the supply chain. It is right to open up the supply chain to competition, because one of the complaints from



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SMEs is, "We're always shut out. We don't get to compete in that supply chain." It is always important that some of those things happen.

**Q176 Chair:** We will want to get into some of the SME-related issues as we get into the session. Lastly from me, because we are keen to get on to FSS, is inflation going to have any impact on your forward plans? Is it going to have a decisive outcome in terms of what has been promised and pledged regarding the five frigates?

**Mr Wallace:** I don't think so on the Type 26. There are a number of tools that we can use to deal with inflation. One is that some of the contracts were fixed-price anyhow, and the risk is shared. For batch 2 of the Type 26, we have improved the risk share so that we and BAE share the impact of cost increases for certain reasons. That is important.

Secondly, of course, any budget like ours, which is about £14 billion of capital spending every year, is going to be a greater victim of inflation than that of some other Departments that do not have so much capital spend. At the latest negotiation round, I got some funding to mitigate some of that inflationary impact, and we will see that play through in the next 12 months.

Of course, if we have to continue to cut our cloth, we will look at other areas. I might look at what my priority is in the whole equipment programme or, indeed, at the things that go on top of the Type 26, which we call the Government fixtures. Those are things like electronic warfare, type of communications, type of anti-ship missile, or no anti-ship missile but air defence missile—all those sorts of things. They can account for a very large proportion of the overall ship. In the past, that is sometimes where the cost growth has been, often because the Department or the Navy have made gold-plated decisions. When we come to the FSS, I can tell you about some of the decisions that I reversed that I think had a significant cost impact that didn't need to be on it.

**Chair:** Okay. Let's get on to FSS.

**Q177 Deidre Brock:** Good afternoon, gentlemen. It is good to see you here. Thank you very much for attending.

We heard, I think on November 16—the day after the Prime Minister, happily, announced that the five extra 26s that had been promised to Scotland were actually going to be built in Scotland, which was very good news—that the Spanish-led team, the Resolute bid, was selected as the preferred bidder for the FSS ship contract, over the Team UK bid, which would have delivered rather a lot more work for Scottish shipbuilding. Could you tell us something about the split in spend between Spain and Navantia, and the UK yards? Is someone able to break that down for us?

**Mr Wallace:** Yes. First of all, I have to give you one health warning. Having made an announcement, we then do the "subject to detail" of contracting. I have to give that slight health warning. I expect us to sign off on the detail in the next few months.

**Vice Admiral Marshall:** Hopefully.



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**Mr Wallace:** The three ships, which are approximately £1.6 billion of order, will be built in three blocks. As you will have seen when you go around the yards, we build our ships in blocks nowadays. The aircraft carrier that was assembled in Rosyth was built around the United Kingdom in different blocks and sailed together. There are three blocks. The bow and middle section will be made, on current planning, in Harland & Wolff in Belfast, and in Appledore in Devon, with some work in Methil and the Arnish yards in Scotland. The aft, the back end of the ship, will be made in Spain, on current plans.

The ship is only one part—it is the metal box. What is then important and what goes in are the gearings, engines, navigational aids, electrical power systems, all the way up to lifeboats, lifejackets and curtains, I suspect. In those big groups, those systems—we will see this in the contracting—we also expect some UK-sourced equipment. Then the whole ship will be built as one in Harland & Wolff in Belfast.

People go, “Ah well, you are building the back end in Spain.” I represent a Lancashire constituency, where I have a good few thousand constituents who make the Typhoon Eurofighter. That is entirely integrated, or built, on the production line at Warton, but it has Spanish wings, a British ejector seat and so on. Modern, complex engineering equipment is often made in component parts. Go to any car factory in the UK and you will find the engine comes from, I don’t know, Germany, and the gearbox comes from wherever. It will be completely put together as one ship in Belfast. That is how it will be constructed.

Q178 **Deidre Brock:** We have heard that the ships will be substantially integrated in the UK. I know that was a decision that the Confederation of Shipbuilding and Engineering Unions described as a complete disappointment.

**Mr Wallace:** I spoke to the local unions at Appledore for Harland & Wolff. They don’t reflect that.

Q179 **Deidre Brock:** Okay. That is interesting to hear. The UK Government initially said that the fleet solid support ships would be classified as warships, and so would be built in the UK. Why did the approach change?

**Mr Wallace:** They are going to be entirely built as one ship in Harland & Wolff in the United Kingdom. It depends what you define as the components and blocks. If we want to go to a point at which you can only describe it as entirely built in the United Kingdom, then no car in this country is built in the United Kingdom and no aeroplane is built in this United Kingdom, because modern technology doesn’t work that way.

Q180 **Deidre Brock:** Okay. Getting back to the spend, do we not have a percentage breakdown? Is there any idea at the moment about what the spend in Spain might be, and what the spend here might be? Navantia is a state-owned company.

**Mr Wallace:** Partly, yes.

Q181 **Deidre Brock:** I am just wondering. Do we not have any hint yet of what



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that breakdown might be?

**Mr Wallace:** No, I don't at the moment. Subject to the contract details, I will be happy to let you know that when I see it.

**Deidre Brock:** That would be very helpful.

**Mr Wallace:** But there is another thing that was attractive about the Navantia bid. Scotland is not averse to foreign contributions in manufacturing. Raytheon in Fife is a US company, which does very well; there is Leonardo in Edinburgh—I am sure you do not object to that. This consortium will invest £72 million in our yards<sup>1</sup>, and will also train some 200 apprentices and graduates for that. It will also employ 800 people in the supply chain, as well as 300 welders and apprentices in the UK. If we want to play the national card, and say, "Oh, well a bit of it is Spain," then it is worth noting that Nissan in Sunderland is the most productive car plant in Europe. It almost saved British car making singlehandedly, as did Honda. Our challenge in shipbuilding is productivity, as you know, and we have to improve it.

Q182 **Deidre Brock:** On the FSS, there was a lot of controversy around those builds. The UK Government did say initially that they would be built as warships, and therefore built in the UK.

**Mr Wallace:** It is going to be entirely constructed—you will see a warship entirely put together—in Belfast for the first time in 15 or 16 years. It is going to grow the jobs in Harland & Wolff, another historical yard—probably historically a Glasgow rival, but nevertheless a UK yard. We are going to construct it there, and I think that is good news for British shipbuilding.

Just so you are aware, I constructed the contract so that there was a separation between the design and the prime companies—in this case Navantia and Harland & Wolff—and where they built the shipyard. BAE do not have a spare shipyard at the moment; it is full of our Type 26 orders. I wanted whoever won to be able to fill the troughs. The problem with British shipbuilding is that it has been peak and trough for so many years, and it is very hard to get investment to modernise the yards. I wanted whoever won to be able to pick a yard and place it.

Disappointingly, Babcock chose to lock itself into one bidder only, which was BAE. That meant that Rosyth did not have the best chance of filling its yard with an order. If it had done as we recommended, then whoever won could have shopped around and found an empty yard in order to access the funding that would be needed to modernise it. That is the only way that we are going to build a British shipbuilding industry that is modernised and ready for the future.

Q183 **Chair:** Just to clarify, you recommended to Babcock not to get involved with the—

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<sup>1</sup> Clarification from Ministry of Defence 15/12/2022: The correct figure is £77 million.



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**Mr Wallace:** No, I didn't say that. I said I constructed the contract so that the prime—the bidder—and the design house could shop around for where they wanted to place the construction of their ship. Babcock clearly took the choice to only bid with one bidder. I am not sure if there were any specifics. We didn't ring up Babcock and say, "Do this," or, "Don't do that." That is not for us to do.

**Vice Admiral Marshall:** We specifically did not do that. We provided the opportunity for a fair and open competition for all yards in the UK.

**Mr Wallace:** That is important.

Q184 **Deidre Brock:** Returning to your points about jobs, Secretary of State, Team UK's bid apparently would have supported a lot more jobs in the UK—that is certainly what was reported—resulting in £90 million of investment in shipyards, as opposed to the £77 million that the Government have announced, and many more jobs. We know about—

**Mr Wallace:** I would not quite buy into the spin you are getting from the union leadership and some of the consortium. Their bid was non-compliant.

Q185 **Deidre Brock:** Can you tell us a little bit more about what it was about the Team Resolute bid that outweighed those apparent benefits? The whole issue of the social value element of the contract has been a little vague when people have appeared in front of us up until now. I wonder if you could explain a little more about how that helped to win the contract for the Resolute bid.

**Mr Wallace:** Obviously it was a commercial process, so I have to be slightly careful how I compare the two. What I can talk about is that the winning bid proved both ability to invest in the yards at £77 million, as I have said, and a commitment to a number of skills investments and workforce investments. It obviously would comply with our requirements on crewing numbers and, indeed, timescales and budget, I would guess, which are all important things to making sure that is done, and our requirement to fully assemble the final ship in a UK yard. They complied with all of those. They were therefore clearly the bid that was compliant, that won, and that got the order placed with them.

Let us remember that, as you rightly said, I think the next day or the day after, BAE—one of the bidders in the other one—got a multibillion-pound contract for Type 26. It is not quite the story of feast or famine that might be painted by the other consortium.

Q186 **Deidre Brock:** All right. Actually, I was going to ask you about that, because we have heard a lot about how important the drumbeat of orders is for Scottish shipbuilding. Do you feel that the decision not to award the FSS will not make any difference to that drumbeat of orders—there will not be a gap that you are worried about?

**Mr Wallace:** I think there are 150 ships in the theoretical pipeline of orders from all the different Government Departments and agencies—DEFRA and all these other things—in the next 30 years.



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**Vice Admiral Marshall:** Yes.

**Mr Wallace:** It is important that, where possible, these ships are built in British yards. One of the things that the National Shipbuilding Office does is help to advise other Government Departments on how to place bids in British yards. I am not the commissioning yard for the Department for Transport, but the National Shipbuilding Office does that.

Q187 **Deidre Brock:** I am just wondering about the social value side of the contract. Can anyone unpick what it was? You are nodding, Vice Admiral.

**Vice Admiral Marshall:** The Secretary of State was clear when we set out the competition that he wanted me to maximise social value through two big drivers, as he has described: first, maximising UK content, and secondly, the building and integration of the whole ship in the UK. Around that, we also highly incentivised supply chain development and skills in the competition, as a result of which the majority of the £1.6 billion contract spend will be in the UK and the majority of the build will take place in Harland & Wolff. There will be 1,200 highly skilled shipyard jobs, of which 200 will be graduates and apprentices, with 800 other skilled jobs in the UK supply chain and the construction of an academy in Harland & Wolff to generate fabrication and welding skills—there will be another 300 skilled jobs there.

The two big strategic levers that the Secretary of State asked us to introduce, coupled with supply chain development and value on skills, have resulted in the vast majority of that contract spend being in the UK and the capital investment of the £77 million into facilities. A combination of skills and capital investment says to me that that is about growth and legacy for the future.

Q188 **Deidre Brock:** Thank you. I am glad that you mentioned Harland & Wolff; I know that my colleague will bring that up soon. There are some concerns about its capacity to cope with this level of work, and there has even been the suggestion that, if it is unable to fulfil the order, it could just pass it to Navantia to complete. I am sure that my colleague Mr Jones will ask about that.

Secretary of State, you mentioned that you are keen to encourage British shipbuilding—shipbuilding in the UK—but this decision apparently makes the UK the only G7 country offshoring its warship production. Is that a pointer to the UK's approach in the future, or should we not take it as that?

**Mr Wallace:** No. I don't know. I notice the Scottish Government's propensity to place orders abroad all the time with its ships, and I am curious that you think that means that the Scottish Government does not care about its shipbuilding.

Q189 **Deidre Brock:** No, this is warships, and it is the G7.

**Mr Wallace:** Let us say that you are a worker in a yard in Ferguson, and you are interested in building a ship. You are not really fussed if it is a warship or a ferry, are you? You want to know that you have a long-term



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job and a future and a skill base. You are not going to sit there and argue the toss and say, "No, I don't want one of your ferries; I want to build a warship." You want a sustainable job and a sustainable, long-term pipeline in your yard, and that is important. Just because you have chosen in the Scottish Government, for example, to place an order in Turkey, I think, that doesn't mean to say that I think you don't care for your shipbuilding industry. I would never make that allegation, but that is a decision that has been made.

We have placed an order that we think does the best. It invests in our yards—£77 million—and it invests in young people and skills. It places it in some yards that we need to get through the peaks and troughs to make sure that they have a future, because some of them are fantastic yards. I will just be careful, if I may. Appledore, one of the purchases of Harland & Wolff, is currently converting three ships for the Lithuanian navy. It has a good track record of both private and public procurement, and it is a yard in Devon. Harland & Wolff has a famous history of shipbuilding, and it has started doing quite a lot of work refitting cruise ships. It is already getting there, and I am not going to take the risk on this thing suddenly falling over. It is very important that we place it with some of those yards.

**Deidre Brock:** Good to hear. Thank you.

**Chair:** We are delighted to have Kevan Jones with us this afternoon as a guest from the Defence Committee, given their interest.

Q190 **Mr Jones:** Can you tell me who the prime contractor is on the FSS contract?

**Vice Admiral Marshall:** Team Resolute is obviously the preferred bidder, and Navantia UK will be the prime there.

Q191 **Mr Jones:** Navantia UK is a shell company that was only incorporated in April this year. Where is the risk? Who is underwriting the risk for that contract? Is it the main Navantia company in Spain?

**Vice Admiral Marshall:** All bidders were subject to significant financial scrutiny in terms of the qualifying—

Q192 **Mr Jones:** Sorry, I am asking a specific question. I have tried to get this through parliamentary questions, and you seem to keep dodging it. Where does the risk lie? Navantia UK is just a shell company. It was incorporated in April this year. What backing has that got in terms of this contract?

**Vice Admiral Marshall:** We will be looking to Team Resolute and the primes to—

Q193 **Mr Jones:** Answer the question. Where does the risk lie? Is it with Navantia UK?

**Vice Admiral Marshall:** What I was going to say is that with the firm-price contract, we are absolutely looking to the prime contractor to shoulder the risk.



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**Mr Wallace:** If you like, I will make sure that we write to you with the detail.

Q194 **Mr Jones:** But Navantia UK is a shell company. It has no trading history. It was incorporated in April this year.

**Mr Wallace:** If it is a shell company belonging to the parent company Navantia Spain, then Navantia Spain—and therefore the Spanish taxpayer; how delightful is that?—will be taking the risk if the thing goes above price.

Q195 **Mr Jones:** Wait a minute, Secretary of State. Can I just hold you there? That is not the legal position. You need to look at your experience on Ajax, for example, where you have a US parent company but the risk lies with a company in the UK. I would have thought that if you have given this contract, surely you must know where the risk lies. If it is the Spanish taxpayer in terms of Navantia, that's fine, but if you have just done it with Navantia UK, that is a shell company. It doesn't have anything.

**Mr Wallace:** Look, I don't think that Navantia is going to play some sort of timeshare shell company game, or that if it were in breach of its contract it would risk its international reputation with one of the biggest defence customers in Europe by saying, "Er, we've all gone bust." I don't think that is going to happen, Kevan.

Q196 **Mr Jones:** You are in a similar situation with Ajax, aren't you?

**Mr Wallace:** No, we are not. I have checked with Ajax. My understanding with Ajax—and I am happy to clarify in writing to you—is that General Dynamics US is ultimately liable, as the parent company, for Ajax.

Q197 **Mr Jones:** Well, that is news to me, and it will be news to the Defence Committee. Can I just ask, therefore, about Harland & Wolff? We have established that Navantia, or part of Navantia, is the major prime. If you look at Harland & Wolff's registered company accounts since 2020, it had a £1.4 million turnover. It has debts of £5.7 million. What due diligence was done to see whether it is capable of fulfilling this contract?

**Mr Wallace:** They are all subject to due diligence. My contracts are subject to Cabinet Office approval and Treasury oversight. It is in no one's interest for us to be placing these in unviable yards or unviable primes. It is not in anyone's interest.

Q198 **Mr Jones:** You have done it twice. This is a £1.6 billion contract with a company that has never made a profit with a turnover of just over £1 million. You talked about the Lithuanian navy contract with Appledore. Appledore's main parent company is Harland & Wolff. The Appledore company itself has a £5 shareholding. That is all it is worth.

**Mr Wallace:** With all due respect, it is worth an awful lot to the hundreds of people I met who work at Appledore, and who have a life and a contract around those three Lithuanian ships and the previous servicing.

Q199 **Mr Jones:** That is fine—I accept that—but I am thinking about taxpayers'



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money. You have given a £55 million contract to a company that basically has a £5 shareholding. Its main parent company has a turnover of only £1 million. I am concerned about taxpayer due diligence, and those workers should be concerned, because if it goes wrong, it is quite clear what is going to happen: the work will be done in Spain, won't it?

**Mr Wallace:** The details of what will happen is what we are going to negotiate between now and the final contract, Kevan. I don't think, Kevan, that coming and slagging off one group of companies helps anyone. We are trying to showcase British shipbuilding. BAE and Babcock in the other consortium are doing a fantastic job on the Type 26. We are trying to make sure that British industry isn't slagged off by our own. I think it is a good offering. We awarded it to a good consortium, who promised not only to come in within price, but also to come in on £77 million of investment into the yard.

Q200 **Mr Jones:** Secretary of State, I am not slagging anybody off. All I want to know—

**Mr Wallace:** Well, I think you are slagging off Harland & Wolff, Kevan, quite considerably.

Q201 **Mr Jones:** I am not slagging them off; I am just stating facts. You are giving multibillion-pound contracts to companies that have very little track record. The issue about the split of work is very interesting. I was in Madrid a couple of weeks ago. You might want to tell the Foreign Office to change their line, because the ambassador told us, when we met him there, that the first ship will be built in Spain and workforce will be moved from Harland & Wolff to Spain to learn the techniques.

**Mr Wallace:** Whether you like it or not, Kevan, Navantia seems to have an extremely good track record of building ships around the world. We need, as I talked about with Nissan and Honda, to learn from some of the market leaders. I am not ashamed of that.

There is another point here about this game of trying to engineer some form of 100% British. The irony is that Type 26 is bought by the Australians and the Canadians because, funnily enough, we are open to international competition and collaboration. Would you rather have it that we said, "No, no one's allowed to be part of this"? I can guarantee that Australia and Canada then would not have bought our ship, because they want to build their own ships. Then where would we be for the taxpayer, the Navy—who would not be able to afford those capabilities—and British shipbuilding?

Q202 **Mr Jones:** As you know, I am not saying that you should not put contracts out to international collaboration, but I certainly don't think we should just give and export jobs abroad. You might want to speak to your Australian counterpart about their experience with Navantia.

**Mr Wallace:** I am seeing him tomorrow, so I will be delighted to do that.

Q203 **Mr Jones:** Well, you might want to ask him about that. Do you have any opinion on the fact that, a week before the contract was announced,



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Harland & Wolff announced—don't ask me where they got it from—that they had secured a £100 million loan facility on a company that has only a £1.4 million turnover? Did they know they were going to get the contract in advance?

**Mr Wallace:** I think there was a formal notification a few days or whatever—I don't know—before the public announcement, in order for the successful bidder to accept or decline. Is that correct?

**Vice Admiral Marshall:** That is correct.

**Mr Wallace:** How many days was it?

**Vice Admiral Marshall:** We informed them the weekend before the announcement to give them time to go back to their board.

**Mr Wallace:** But I noticed in the media that the other consortium had briefed out that they were not going to win way before any decision had been made, so maybe they knew something I didn't know.

Q204 **Mr Jones:** Well, they were told by your office that they weren't going to get it, that's why.

As you know, I broadly supported the shipbuilding strategy, which I think is the right approach, but we are not having a very good time of it, are we? You are our shipbuilding tsar, so you should be able to move things around. We have a case here where we are having ships built in Spain; we have the Home Office still procuring boats in Holland; we have your own Department procuring a cable inspection vessel in Holland; and we had the special vehicle last year—a £10 million contract—from Holland. I accept that you cannot direct these Departments, but how much are we doing across Government to say to Departments that these contracts can be let in the UK? If we are going to meet the ambition that you quite rightly argued for in the national shipbuilding strategy, then we need to have orders behind it. Exporting them to Holland is not a very good idea, is it?

**Mr Wallace:** First, on the Type 26, obviously, the announcement was not exporting to anywhere. Secondly, as I have said, as part of the contracts we were negotiating, the fleet solid support ship will be entirely assembled, put together and finished off in the UK yards of Harland & Wolff. I cannot remember whether, when you were Defence Minister, you ever claimed Typhoon was built in Spain or Italy, Kevan, even though large components of that come from Spain, Italy and Germany.

Q205 **Mr Jones:** No, but that is not the point.

**Mr Wallace:** It is the same thing, Kevan.

Q206 **Mr Jones:** There is a big difference between this type of ship and that, but you referred to companies that claim to come here and be British as "T-shirt jobs". That is exactly what we have got here, haven't we, with the Navantia contract? These are T-shirt jobs.



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**Mr Wallace:** No, because with the 800 people we are going to bring—who are going to be trained in the supply chain, the 300 welders who are going to be trained, and the 200 graduates, they are all going to be in enduring, sustainable jobs, on the future solid support ship in the UK.

Q207 **Mr Jones:** And have you looked at Harland & Wolff's import of foreign labour, for example, to Scotland from Portugal and Spain?

**Mr Wallace:** It was probably about the same time, when you were in government, when Poles were brought in to Rosyth to help build the aircraft carrier.

**Mr Jones:** No.

**Mr Wallace:** You might be able to explain how you did it, because, at the moment, it is not very easy to bring people in, but it did happen under your Government.

Q208 **Mr Jones:** No, wait a minute—just a minute. You can fire back like that, but you are in the decision-making seat now, Secretary of State, not me. The point is that in Harland & Wolff's yard in Scotland, for example, they have brought in labour from Portugal, I think. There have been some problems, I understand, from the unions, with them actually getting paid, so what is to stop Harland & Wolff from bringing foreign labour into Belfast when they cannot meet those very ambitious targets which you are going to set them, in terms of creating skills?

**Mr Wallace:** Every shipbuilder—Babcock and BAE—has lobbied me to see if I can bring in foreign workers. Team UK have asked to bring in foreign workers because they want to upskill their workforce, or address skill shortages. There are skill shortages in aerospace, in medicine—all over this country, we are all facing skill shortages. I have another duty, which is to deliver ships, on time, to the Navy, so that it can protect these shores. That is a competing timeline, but we must try to meet the timeline, Kevan.

Q209 **Chair:** Could I just ask, on Northern Ireland, as it is still in the single market as part of the Northern Ireland protocol, they have access to freedom of movement, so they are going to be at competitive advantage compared with the rest of the UK.

**Mr Wallace:** But part of the ship is going to be made in Appledore in Devon. Look, I think my point is that one of the reasons we put in the conditions of this that they train people and bring up a new generation of shipbuilding is that this thing will commit to doing that. Not only that; for the Type 26, BAE is opening an academy. If you go to Barrow-in-Furness, you will see nearly 1,000 apprenticeships started, so of course we want to invest in the skills.

Q210 **Mr Jones:** The problem is, Secretary of State, you have the proud history of Harland & Wolff, as a name, but that is not what the company is now, is it? It is a shell of what it used to be, and its capacity to fulfil this contract is actually going to be very limited, isn't it?



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**Mr Wallace:** I don't agree, and, as I said, I do not think that slagging off Harland & Wolff—

Q211 **Chair:** We are going to have to move on, because I know that lots of other colleagues want to come in. Rex, I know you want to come in; please do.

**Rear Admiral Cox:** Sorry, Mr Jones, just on a point of fact—I know you raised this with Mr Spellar previously—on the Border Force cutters, as I said on record then, and as I have written to you, in response to your letter, I can categorically state that the Border Force cutters are not engaged with the Netherlands. The PIN has not even been released, and the procurement strategy has not even been decided on, so whoever is feeding you that information is feeding you incorrect information, I am afraid.

Q212 **Mr Jones:** No one is feeding it, but is it not your job to ensure that the UK actually procures those ships in the UK, rather than in Holland? We have had two ships—

**Mr Wallace:** Why did you come up with Holland, Kevan? Where did that come from?

**Chair:** Okay. We will leave that here. Just one thing, if you could just—

**Mr Jones:** You ordered two ships from Holland recently.

**Chair:** Okay, Kevan, thank you.

**Douglas Ross:** What a waste of time that has been for the Scottish Affairs Committee. We haven't even touched on that issue.

**Chair:** We will decide what is a waste of time—

**Douglas Ross:** Well, I can see that was a waste of time.

**Chair:** He is a guest coming from the—

**Douglas Ross:** Yes, but it had nothing to do with our inquiry.

Q213 **Chair:** Enough, thank you. There is one thing that I would like to hear from you, Secretary of State. Is there any sort of pre-contract agreement that you have in place with either Team Resolute or with Harland & Wolff, so that if it does manage to go wrong, there is—

**Mr Wallace:** I think that is what we do between now and the final contract.

**Chair:** That is what you will be working on just now?

**Mr Wallace:** Yes, absolutely. And, you know, your concerns are valid. As I said, it is in no one's interest, whoever we place something with, for something to go wrong. There was a recent contract with another UK prime that considerably underestimated the cost of doing something on some of our warships, and we have had to move it to another part of the UK.

That is not comfortable, because I want our Navy to have those ships as soon as possible.

Q214 **Chair:** You can tell us, today, that this contract will not end up being delivered in Spain instead of Scottish shipyards?

**Mr Wallace:** As I have said, part of the component part of it is going to be constructed in Spain, but it is going to be entirely assembled in the UK. That is the condition of the contract.

Q215 **Mhairi Black:** Thank you for giving us your time today. Given its lack of formal powers, how is the National Shipbuilding Office going to ensure that decisions are made in a strategic way, and hold other parts of Government accountable?

**Mr Wallace:** First and foremost, at ministerial level—I will hand over to Admiral Cox to show you how we do it—we have an inter-ministerial group chaired by me. It is attended by Ministers from all the associate Departments, either as potential customers, like the Home Office or the Department for Transport, or those Departments that contribute to the strategy, whether through funding innovation, like UK SHORE, which is trying to invest and innovate, including in I think two Scottish companies, in alternative energy propulsion systems, or indeed in the future skills base—so the Department for Education, making sure that we engage and try to build that skilled workforce, which is important. Thirdly, in other areas, export credits, home credits and things like that are important to stimulate the market.

We do that. We also do advice because we are all subject to WTO rules. That means that in Departments that are not building potentially a military ship, how can we advise them to maximise UK content or UK contribution? We use our knowledge in Defence, having over the decades built lots and lots of ships. How can we help them to navigate their way through that? If you think about it, somewhere like the Home Office probably procures its cutters once every 30 years or something. It does not hold a knowledge base of constantly buying ships. It is not something that people do, so we definitely do our best to help them through that.

We have also commissioned areas like building shipyards of the future, so that we go and look at other, I'm afraid potentially world-beating, yards and see what it is that we want Govan, Scotstoun and Rosyth to look like, so that we win more orders in the future. There is no harm in looking at our competitors, and we do that as well. Those things help productivity. Then there is an office for exports, to try to win as many exports around the world as well. Statute powers are limited as a way of directing, but political influence and political use of my office to push, encourage and call upon the Scottish Government and the Secretary of State for Scotland to use their offices to influence, and to make sure that something is here, are all part of the same programme.

**Rear Admiral Cox:** The Secretary of State outlined the structure. Specifically in Scotland, my team and I interact and talk regularly with the Scottish Government manufacturing industries division, the Scottish



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Government strategic commercial interventions directorate, Transport Scotland, Marine Scotland, Skills Development Scotland, Scottish Enterprise, the Scottish Maritime Cluster and CMAL. We would welcome any support from this Committee in furthering our relationship with the Scottish Government, but it is a really good relationship, and it is strengthening all the time.

Q216 **Mhairi Black:** Excellent, that is good to hear. Has the NSO hub in Edinburgh been set up yet?

**Rear Admiral Cox:** Thank you for asking. We are delighted that we have signed the lease on our Edinburgh hub. We have some space in the Queen Elizabeth building in Edinburgh, and we use that to base out of when we are in Scotland, interacting with all the agencies that I mentioned in my previous answer.

Q217 **Mhairi Black:** Do you know roughly how many staff will operate from there?

**Rear Admiral Cox:** Overall—let's put this in perspective—the NSO team is 24, building to 30 including industry secondees. At the moment, I do not have any permanent staff based in Scotland, but we are a hybrid team, we recruit across the United Kingdom, and I very much hope that that will change. At the moment, I use it with my team. I have been up four or five times this year. I will go up again in the new year to make best use of that. It makes sense. Scotland is an important part of the UK shipbuilding tapestry.

**Mr Wallace:** Roughly, the size of the office space that we have rented is eight to 10 out of the 24 to 30<sup>2</sup>. If we recruited people, or the Scottish Government had people to suggest to support it, or second in, we would be delighted to base them in Edinburgh. I would like to see more permanent use of that office. At the moment, it is a National Shipbuilding Office, so we advertise the places and people can effectively choose where they are going to be. I would encourage Scottish applicants.

Q218 **Mhairi Black:** Does the NSO have access to the data it needs to be able to make strategic decisions?

**Rear Admiral Cox:** Absolutely. We are a growing organisation, but we make use of all the wealth of data that exists out there. Not only do we commission studies and data ourselves, we work bilaterally and very closely with the shipyards. As you can imagine, shipyards are sometimes a little bit cagey about what they are prepared to share from a commercial perspective, but by building a good relationship with them across all the primes and the smaller Scottish yards as well, we think we are building up a good knowledge base.

**Chair:** Thank you. David Duguid.

Q219 **David Duguid:** Thank you, Chair, and thank you, gentlemen, for joining us today and giving us your time. Following on from quite a few of the questions that have come up already, how important a role do you think exporting ships and design licences should play in sustaining a strong



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shipbuilding sector in Scotland, and how reliable do you expect military exports to be over the longer term to support that shipbuilding pipeline in the way that the shipbuilders and their yards will need to sustain?

**Mr Wallace:** Export is really important, first of all for allowing us to afford our own capability. Very few nations on earth—potentially only China and the United States—can unilaterally build something just for themselves. It just does not become viable if you want to keep the top tier of your capabilities, so that is really important. For example, with the Type 26—the anti-submarine warfare frigate—it is important that we have Canada and Australia on board. Predominantly, that is about the design, but with the design sometimes comes some unique capabilities: for instance, the gearbox is a very important part of that, and that is currently made in England, in Huddersfield.

With those sorts of supply chains, you can win at lots of levels. In the design, the prime company will take a proportion or a percentage for selling the design. In the supply chain, it is not everything—the Australians have their own radar for the Type 26, for example—but we are often in a similar pool, so you will find your supply chain can win as well, and that gives huge opportunities. For example, with the Type 26, we will be putting the generic Mk 41 missile launcher on that one. Of course, that will be able to fire missiles such as the ones made by Raytheon, but it is quite a generic launcher, so it will help all sorts of other types of missiles be launched.

Overall, export allows you to win at lots of different levels, and I think that is the key. Do I think there are many tier 1 navies in the world that will buy an entire British ship as is? There are a few, but of course, Australia has an indigenous workforce and it wants to keep its yards working. That is totally understandable, and that type of collaboration is ultimately important when it comes to British jobs as well.

Q220 **David Duguid:** I am certainly not asking you to make any hard and fast guarantees, but what can you say about how reliable that steady stream of military exports can and should be to sustain the Scottish—

**Mr Wallace:** If you have a diverse enough base, so you are not putting all your eggs in the metal box bit or the radar bit, you can cover your bases and win at different levels. Remember, with the French submarine contract that was cancelled by the Australians, there was a lot of understandable disappointment from the French, but what did not get any media was the fact that Thales UK was in that consortium. We were, I think, providing the sonar for it.

If we get it right—if we have a domestic drumbeat that is big enough and broad enough, and we do not over-focus on one part of the contract—we can keep the momentum we need for winning orders and proving a track record. With Britain being a very respected navy in the world, when it buys a ship with a certain capability, a missile or a rescue boat, it matters. We are a reference sort of customer, and that matters for other nations around the world. It is always a challenge when you go to the very high



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end because there are only so many countries that can buy those things. Nuclear submarines are a good example of a very real challenge. Very few countries on Earth can do that—Australia has taken the decision that it wants to buy a nuclear attack submarine. Ultimately, the broader the export and the more you can sell up and down the chain—whether it is the design, the box, the metal superstructure or the radar—the better. That sets you up for continuing the flow through the yards and the supply chain.

British shipbuilding is not just the big yards. It is everything from the people who make the RIBs to the storm escape equipment for the oil rigs up in the north-east of Scotland and the skills that go into that. When I used to represent the north-east of Scotland, Montrose had a skills academy to train people how to survive cold water. The British maritime industry is massive. We often get distracted by the traditional yards, but it everything. Princess Yachts in Plymouth employs 3,500 people making expensive super yacht-type things, ships and boats. Those 3,500 jobs are just as important as those down the road in Falmouth, where they are making and servicing Bay-class ships at Pendennis<sup>3</sup>. The maritime industry as a sector should not just be seen in one narrow bit.

**Q221 David Duguid:** So having a diverse range of what you can provide makes it more likely that there will always be a market for at least some of what you are producing.

**Mr Wallace:** Yes, and that is why skills are so important. Barrow is about an hour and a half north of where I represent, and in Lancashire they make the Typhoon, so there is a lot of interchange. If you are systems integrator, you can work on an aeroplane one month and a submarine the next. It is exactly the same if you are a radar integrator at Scotstoun: you many find yourself over in Edinburgh or Glenrothes doing other radar work. I don't know whether they still service aircraft at Prestwick. All that is possible.

The key here—the thing I would really urge the Scottish Government and my own Government on—is FE colleges and skills. They are really key. I am a great fan of FE colleges; I think they are really fantastic. They have always been the Cinderella of the education sector, but they give fantastic opportunities. It saddens me when you go to a yard and the FE colleges say things like, “I can't get in the schools,” as one said to me. The schools want to send all the young people to university to do something different, and the yards are crying out for skills and jobs.

We all have a role in selling the fantastic careers in the maritime industry, the aerospace industry or the engineering industry, and the FE colleges are really important. BAE's academy at Govan is really important because it is properly connected into the FE college around the Clyde. They have opened a big one in Barrow-in-Furness as well. The question for the Scottish Government is, “How are you engaging your FE sector in growing that skill base?”

**Q222 David Duguid:** Thank you. Admiral Cox, I think you wanted to come in.



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**Rear Admiral Cox:** As part of the strategy, we set up the Maritime Capability Campaign Office in the Department for International Trade. It is a team of about 30, and they are specifically looking to take an intelligence-led portfolio view of the opportunities and campaigns. To put some figures on it, their assessment—again, these are subjective—is that it is targeting just under £30 billion of international naval orders. They are doing that proactively at the moment.

On the successes, the Secretary of State talked about selling the Type 26 design to Australia and Canada, and the Type 31 Arrowhead 140 export variant design has been sold to Indonesia and Poland. The next thing that you will fairly say to me is, “Okay, that is just the design,” but nearly 60% of the supply chain for those vessels is from the United Kingdom, so the design is just as important.

When we talk about shipbuilding, we talk about the bookends, from design—the first line on the CAD system—all the way to through-life support and everything in between. I think there are some really vibrant opportunities there, but that is why we set up the MCCO.

Q223 **David Duguid:** I recognise what you are saying. I come from the oil and gas sector, and selling the design of something—a safety management system or whatever it is—is often connected with saying, “And by the way, we have the people and technology back home. We can sell you that when you actually build what you are building.”

The home shipbuilding credit guarantee scheme provides an 80% loan guarantee, compared with 95% or 100% in some competitor countries. Does that place shipbuilders in Scotland and across the UK at a disadvantage?

**Mr Wallace:** The final percentage has not yet been decided, but I think it is an incredibly important policy. It is bizarre that we currently have a policy whereby if you are a British company and you want to build something in a British yard, you are actually incentivised, through other people’s export credit, to build it in a Norwegian yard, especially in the oil industry. If you want to go and build a rig from scratch, you will probably get more of an incentive, through their export credits, to build it in a foreign yard than you would here. To me, the home credit guarantee scheme is absolutely a key part of the national shipbuilding strategy to make sure we deliver what we want in that space. There is still work to be done on what percentage of that is going to happen.

Q224 **David Duguid:** So just having a home guarantee is an advantage. Whether it is as good as those of other home producers is less important.

**Mr Wallace:** Yes.

Q225 **David Duguid:** Finally—this is maybe more a question for the Department for International Trade—what conversations are you having with other Departments, such as International Trade, to see what more could be done to further export Scottish shipbuilding expertise and technology?



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**Rear Admiral Cox:** The MCCO team, and indeed the NSO team, are regularly engaged with Scottish yards—both the shipbuilders and the refit and repair. I will give you some examples. We talk regularly to—these are all stakeholders of both groups—Ultimate Boats, Malin Group, Macduff Design and Coastal Workboats, who are just setting up their new place in Glasgow, which is tremendous news for the industry.

**David Duguid:** I am glad to hear about Macduff Design, because it is in my constituency.

**Rear Admiral Cox:** Excellent. And of course we have a very good relationship with Ferguson. We are working closely with them, as the new chief executive and new team there seek to address the previous challenges.

Q226 **David Duguid:** To divert a little bit, Macduff Design is obviously part of Macduff Shipyards, or is associated with it. That is in Douglas Ross's constituency as well. I think it is one of the few—if not the only—manufacturer of steel-hulled fishing boats in Scotland. It is good to see that connection as well, so thanks for that.

**Rear Admiral Cox:** Indeed, and MCCO in-country colleagues in Brazil, India and China are providing support to them in their various enterprises.

**David Duguid:** That is fascinating to learn. I did not expect to hear that, but thank you very much.

Q227 **Douglas Ross:** Secretary of State, since Nicola Sturgeon became First Minister eight years ago, the Scottish Government have completed one ferry. The UK Government have delivered seven warships in the same period. What do you think that that says about the UK Government's and the Scottish Government's investment in Scotland's workforce and their prioritisation of those highly skilled jobs and that investment in Scotland?

**Mr Wallace:** First, it says why we needed a refreshed national shipbuilding strategy. All of us navigate the challenges around free, open markets, WTO rules and so on, but there is a way forward in order to improve the performance of all of us. The national shipbuilding strategy has good buy-in from the Scottish Government at officials level, which is really important. It is important to understand how we can collectively indicate to investors and yards that there is a pipeline worth investing into. That is really important. We talk about 150 ships over 30 years, but that is not a guarantee that 150 ships will be made in every yard. In fact, there may be times, if we are successful, when our yards simply do not have that capacity.

What it also shows—I am afraid it is not much different in England, to be honest—is that it was almost as if shipbuilding was a dirty word. People did not really want to talk about shipbuilding, and it was all very romantic, but, actually, it was all behind us. I am really proud of the strategy, because it brings together parts of Government that never thought they had a role in it. It shows that shipbuilding should be of interest to you. Most of our trade moves by sea. If you are the Department for Transport,



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you have the money to invest. If I look at the strategy—it just shows dots on a map, so I am guessing—it looks like there are 16 winners of the clean maritime demonstration competition in Scotland alone<sup>4</sup>. We have a role in developing our technology. If only we could believe more in our shipbuilding, be more outward about it, and take it more seriously, there would not have been some of the shortcomings that the Scottish Government got itself into. Other Governments had been there before in other times: it was the photo op, but not the investment in the skills, the yards, the management quality and the pipeline. We would not have got into that space with Ferguson, for example.

Hopefully, what it really says is that we all need to come together, irrespective of our political views on independence, to invest in our yards. We have a great skill base to develop and a reputation that we can get back. But we are only as good as our last contract.

**Q228 Douglas Ross:** Your point about photo shoots is well heard in Scotland, given that the First Minister launched a ship with painted-on windows.

I know that you try to get above party politics whenever possible in the important role that you play in Cabinet. However, the Committee has heard from Professor Keith Hartley in this inquiry—it is important that our questions today are about our inquiry and the report that we will submit—who has advised UK Government Departments and the UN, and he told the Committee: “I do not see a future for a...warship building industry in an independent Scotland.” Do you agree with that statement?

**Mr Wallace:** I would certainly say that an independent Scotland’s defence budget would not be of a size that could sustain a long-term shipbuilding industry for the Navy, simply because the capital investment required is so big. They would have to do one of two things: cut something else or be very good at exporting. That is a challenge for any country that is going to reduce its revenues, incomes and, indeed, its defence footprint. I do not think you would see the same level of shipbuilding in Scotland that you currently do in the Navy sector.

**Q229 Douglas Ross:** I want to focus on the point that you raised fairly recently in your evidence about the workforce. Something that came through loud and clear is that we have outstanding, talented men and women working in the shipbuilding industry in Scotland, and we have been lucky enough to see them as Committee members. This is difficult, because the Committee deals both with what the UK Government are doing but also with the devolved responsibility for education, but what more can you, the shipbuilding strategy and others in the UK Government do to work with colleagues in the Scottish Government to ensure that this industry is attractive to young people? Are we doing enough to encourage young women leaving school, college or university to go into the shipbuilding industry? For too long, all the graphics and images around it have been of a dirty job that no one would really want to work in. You said yourself, Secretary of State, that shipbuilding was seen as a dirty word. Are we doing enough to make it a more attractive future career for men and women in Scotland? With the massive expansion that you have outlined



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today, there is a real need for these jobs.

**Mr Wallace:** That is why it is so important to modernise yards. You have to break the romance that it is a photo op and everyone moves on. You have to show that building a ship is a highly complex, highly skilled job, with lots of different opportunities, from the welder to the designer. How many people are involved in the FSS design, which is a Bath-based British company?

**Vice Admiral Marshall:** I think BMT have 120 skilled—

**Mr Wallace:** One hundred and twenty skilled extra jobs. It is not just one person designing on a computer. There are lots of outlets for your skills. Whether you are at the industrial end or the design end, it is all there. At Govan, I met all the unions, who are fantastic—like my local unions in Lancashire. I said to them, “When you speak to your local politicians, tell them about the importance of FE.” They are as ambitious to compete as anyone. They said to me, “We want to be able to win contracts when, one day, the Navy doesn’t come to place its order. We want to be in prime position.” They absolutely know. I said, “Tell your MSPs and your MPs about the importance of the FE college.” They have a role to play, and that is where the devolved Governments and the United Kingdom should be working hand in hand and exploiting the opportunities of both exports. I want to see Scots all over the world selling ships, helping to design and build ships, and doing all those things that we have a reputation for. I think that is important.

Q230 **Douglas Ross:** Is enough of that happening just now, or is there a concern that we do not have significant numbers entering FE at the moment, learning the skills that they will need in the coming years and decades?

**Mr Wallace:** I think that is a concern across the aerospace and shipbuilding industry per se. I don’t think it’s unique to shipbuilding. The one thing that did not stop during covid was people retiring. If about 8% of BAE retires—I think that was roughly the number during covid over two years—suddenly you have a deficit across lots of areas, and I think that is the same for most of our engineering and STEM requirements.

Raytheon, an American company, is doing fantastically well in Rosyth—and it is fulfilling orders for Americans in Rosyth<sup>5</sup>. I think that the thing that we can do together is skills. Kevan, your point about Harland & Wolff is important. We have to see them invest in the skills—that is right. It is absolutely important that we recognise that skills are like oxygen for businesses. They are more important than tax rates, because if businesses do not get the skills, they will move. They will move immediately—they don’t muck around—because without the skills, they cannot deliver what they are supposed to deliver.

The one thing that the Scottish Government and the British Government can work hand in hand on is improving STEM skills, science skills and engineering skills, and then people will have a choice in Scotland as to whether they make missiles in Rosyth, warships on the Clyde or ferries at



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Ferguson or do something entirely different, like make rockets at the Highlands spaceport. I think all of that is important.

Q231 **Douglas Ross:** Rear Admiral Cox, we discussed this when we were up in Scotland. Is there anything you would like to add?

**Rear Admiral Cox:** First, I absolutely agree with your characterisation of the problem. Perhaps I could give you a little flavour of what we are trying to do to solve it. Building on what the Secretary of State said, a key part of the strategy, which is led by the Department for Education— notwithstanding that skills is a devolved issue in Scotland—is the UK shipbuilding skills taskforce. That is led by Dr Paul Little, who is the founding principal and CEO of City of Glasgow College. He interacts regularly with Scottish Government colleagues and is a regular attendee of your Committee. They have had their, I think, sixth meeting and are just coming to the end of the discovery phase, as they call it—that is, outlining the problem—and now they are going into what the solution is going to be. They are due to report in September next year.

On examples of what people in Scotland are doing, BAE Systems is committed to its £15 million investment in the new applied shipbuilding academy in Govan. They are employing over 500 shipbuilding apprentices and graduates. They have recruited another 186 apprentices on Type 26 this year alone, with a further 200 planned for next year. Type 31 has brought in just under 200 early-careers employees, and they are also doing a pre-apprenticeship programme in Rosyth, which is proving extremely valuable.

The final thing I would say is that the Scottish Government has put out a call for evidence on Scotland's skills system, and that closes on 23 December. I think that will be a cracking opportunity for the shipbuilding sector in Scotland to engage with Government.

Yes, there is a problem, and we are trying to get after it, but it is a whole of the United Kingdom solution. From my perspective, as a sort of guardian of the strategy on behalf of the shipbuilding tsar, I think they are making good progress and it is the right way to try to get around the issue.

Q232 **Wendy Chamberlain:** Thank you, Secretary of State and gentlemen, for your time today. We have talked about social value as a measure, and I want to drill down into the detail of how that is actually calculated. When thinking about the procurement strategy and domestic procurement, are we thinking about and drilling down into the detail of local economy benefits? Skills is clearly part of that, but are we thinking about that circular economy locally? Have we got that far in terms of datasets when looking at those assessments?

**Mr Wallace:** There are a number of ways you can try to secure as much UK content as possible and, indeed, leverage SMEs and everything else. In some of the military contracts we have, you can try to specify that an x per cent. pass/fail has to be from the UK. You have to be careful to get



some bids. If you suddenly said that 100% has to be from the UK, or the wing mirror has to come from Sweden, you are in trouble.

Then you have weighting in the contract in a different way. Instead of a pass/fail, you have different weightings—cost, capabilities and social value weighting. In the national shipbuilding strategy, I directed that it was 20%, which was above the Treasury standard of 10%. Within that weighting, social value can be marked on environmental issues; social and economic impact; incentives, investment and productivity; tackling economic inequality; supporting local communities and covid recovery; exportability; and adding best practice. For me, that is often not enough. You could, if you wanted to, just put it in a social value box and make it 10% of the weighting, not 20%. You can go above 20% if you want. You could play a few tunes on some of those, but not all of them.

I am usually more robust on that. On the FSS, it was the majority of the ship. I also recognise the difference in terms of the supply chain, which in some areas is more valuable than the actual metal. On the Type 45 air defence frigate, which roughly worked out in the end at about £1 billion a ship, and which was made on Govan, I think—I can write to the Committee and clarify this—that the metal box value of that was about 12%. It was the radars, the controls and the other things that make up the value. We should not forget that, behind all those other things are jobs—they might not be in the same place, but they are jobs.

**Q233 Wendy Chamberlain:** Absolutely. Trevor Taylor was very good at outlining to the Committee how the value of the box has decreased over time, and what goes in it in terms of value. On those different criteria that you talked about, how are we assessing them? How are we consistently looking at that across bids? I suppose I am thinking about the fact that, when you have things happening in local communities, it is not just about those jobs in those local communities, but the fact that people are putting that income from those jobs into those local communities as well. Are we drilling down into that level of detail?

**Vice Admiral Marshall:** The first time we did this was with Type 31, where we were very specific in the evaluation criteria for the competition about where we expected the bidders to place their social value. We improved on that with fleet solid support.

The question really is, how do you make sure it gets done? Because it is part of the competition, it is an obligation in the contract. The execution of the contract and the governance of that by my team is essential. We are holding the prime contractor to account for the delivery of that as a contractual obligation. That is the key difference.

As the Secretary of State said, we have seen BAE, under single-source regulations, doing some fantastic investment in facilities and academies, both in Barrow and on the Clyde. But in Type 31 it is a contractual obligation, and we are seeing that flow through.



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To your point, we are getting greater detail on where it is working, because we have the governance in place because it is a contractual obligation. We intend to repeat that for fleet solid support.

**Q234 Wendy Chamberlain:** Thank you. For me, skills fit in with resilience. We want to have resilient future shipbuilding. I am liking all this stuff, given that I spent a year at the Babcock Lauder college facility in Rosyth once upon a time. In terms of that resilience—again going back to social value—are we measuring skills within that? Surely, maintaining FE inputs would count from that social value perspective?

**Vice Admiral Marshall:** We are definitely measuring numbers of apprentices and early careers, as Admiral Cox said. We are definitely looking at how they are retained and how they develop. There are some very interesting individuals; they do not add up to large statistics, but there are individual stories of how people have come through the tools and into the management system, and how they stick with that. The academy in Cammell Laird is growing its own talent. In Liverpool in particular, it seems to be very sticky in the local area. We are seeing the same in Rosyth and Govan, where it is definitely a local workforce that is being generated and sustained, often on a generation-by-generation basis.

**Q235 Wendy Chamberlain:** On those concerns that potentially we do not have the data, would your argument be that that data is developing all the time?

**Vice Admiral Marshall:** It is definitely developing all the time. As I said, the key to that is getting the information through the contractual obligations, so we can start measuring it in a meaningful way.

**Mr Wallace:** Early on in my tenure, it was clear that one of our vulnerabilities was the supply chain—as in, knowing the supply chain. In the past, it has tended to be over to the prime, they decide the supply chain and it's up to them.

**Q236 Wendy Chamberlain:** Yes. So, at first tier, it is okay—but nothing below that.

**Mr Wallace:** Yes. One of the challenges with the Type 26—we announced last week or the week before that the first one was delayed a year—was that there was a real problem with the supply chain and the gearbox. It was not with the gearbox design, but because the test bed it was using wasn't working. That came to my attention 20 months after the delay, not within six weeks. It is very clear that the vulnerability is the supply chains in many areas, both for deliverable productivity and security—if your adversaries try to penetrate your supply chain, that is also a problem.

There has been a real drive across Government, and certainly in our Department, to map and understand your supply chain right the way through the system. In that, we will gather the other data that is so important about skills. When you discover that the widget is late and you ask why it is late and it turns out they don't have a skills base, you will then understand what is affecting it. In the past, it has been a bit like,



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"Over to you, Babcock" or, "Over to you, BAE", or whoever it is, and then we try to deal with it later. I don't think we want to do that anymore. That is why we want to get on top of that.

**Q237 Wendy Chamberlain:** Resilience in all its forms. My last question is on the national shipbuilding strategy refresh committing to funding an analysis of maritime enterprise, which probably plays into some of David's questions. Can you update us on that maritime enterprise work?

**Rear Admiral Cox:** Absolutely. The maritime enterprise, working very closely with the Scottish maritime cluster, committed to doing that work. Subsequently, they stopped doing it because it was superseded by a commission from the Scottish Government. That enterprise study was actually published earlier this year. I can provide you with a copy of the executive summary on completion of this sitting, if that would be helpful.

**Q238 Wendy Chamberlain:** That would be useful. Are we comfortable that that has superseded, in terms of its remit—

**Rear Admiral Cox:** The study, yes, but the work continues. The relationship between the Royal Navy, the clusters, the Scottish maritime cluster and, indeed, the NSO continues. It is a judgment on whether we think the report does all the work. I am not completely au fait with all the details yet—it has only been recently published—but I think it does what you've asked.

**Q239 Mr Jones:** You've talked about social value and you've said you monitor it and how you evaluate it. What's the penalty on the contracts if they don't meet it?

**Vice Admiral Marshall:** I will have to reply to you on the specifics of that.

**Mr Wallace:** It's subject to contract, but also people stick within the contract and I expect people to stay within the contract. If they don't, the Department will have to generate a review note, as I think we call it, and re-baseline and so on, and all the things we don't want to happen. I take a strong view on that. Like with Ajax—I have been very clear, Kevan, that I will stick to my side of the contract and I expect General Dynamics to stick to theirs.

**Chair:** I'll take that as a "don't know". David Duguid.

**Q240 David Duguid:** Thank you, Chair. This is a straightforward question. What does the MOD see as the ideal kind of relationship between BAE and Babcock? Is the idea to have it as more of a competitive or a collaborative relationship?

**Mr Wallace:** Both, because they both own the means of production. At one level, Babcock and BAE own yards, but they also own the capability to design and integrate and prime something and hold the risk as very large companies. They can take that. It goes back to my earliest point, which is about how we construct our contracts. We are trying to do two things. We are trying to make sure our yards are full with work over a long period so



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we can attract investment from abroad and from home to make sure that they are invested in, to MODernise and keep pace on the skills. Making sure they are full, I think, means we have contracts that focus on where these guys make their money in different areas. Both Babcock and BAE make money as a prime, as a design authority and as an integrator, but they also make it when they are building the thing. They don't have to have all their cake and eat it. They can say, "You've won—you've got the best design and you can prime it. But your yard is currently full", as Govan is, "but here are some other yards", and then they drive a bargain between the yards and themselves. That way, we get out of the deep challenge. I don't mind. Yes, at one level, they are competing. It depends if the first half of the contract is, "Who's the prime?", then that is the competition, and the second half of the contract is where you are. All over the world, these big aerospace companies are prime in a bid, but often a supplier in another bid.

If my memory serves me right, for the F-35 contract, BAE was bidding in with Lockheed Martin for the Pentagon contract. In the rival bid, I think BAE was doing the weapons system or something. These big guys cover their bases.

**Q241 David Duguid:** Thanks. I suspected that would be the answer, in particular since I spoke to representatives of both BAE and Babcock at a recent CBI Scotland reception. They basically told me the same thing. I have seen it in the oil and gas industry as well, where traditionally your BPs and Shells would not talk to each other, but there are certain levels where they will collaborate, through necessity if nothing else.

What steps have the UK Government taken to encourage prime contractors such as BAE and Babcock to incorporate Scottish SMEs into their supply chains as much as possible?

**Vice Admiral Marshall:** I work with the defence suppliers forum, which incorporates the big strategic suppliers in defence. Each one of the strategic suppliers has SME champions. Together, we have set ourselves a challenging target of ensuring that 25% of the defence spend flows directly or indirectly to SMEs by the end of this financial year. The current data I have is that it is at 23%, so slightly short of that ambitious target, but on track to get there by the end of the financial year.

That is how we are acting at the big strategic supplier level—again, incentivising through social value in terms of supply chain development, and ensuring that that is part of the competition. Fleet solid support resulted in 25 SMEs being identified, again subject to contract, so I will not comment on any specific suppliers, including suppliers in Scotland. Those include software and specialist equipment suppliers, and system integrators, so it is high-value stuff. Although they are SMEs, they are really important in terms of the value to the project and the programme.

Some of the specific work we do and focus on is about how we avoid onerous terms and conditions flowing down through the supply chain, so listening to the suppliers and their concerns. They are making a practical



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difference in how our commercial offices engage through the strategic suppliers and directly with SMEs in understanding where the barriers to entry might be.

**Q242 David Duguid:** On the subject of barriers, the Committee heard concerns from Scottish SMEs that the Department appears to be hesitant about working with new partners. That disadvantages contractors in Scotland, compared with the rest of the UK. What do you have to say?

**Vice Admiral Marshall:** I have had no specific criticisms offered to me by way of example. I have not heard that.

**David Duguid:** Neither have I, frankly, because it was before I joined the Committee, but I understand that it was a concern expressed.

**Q243 Chair:** On that, because it is important, we had SMEs in to discuss their experience of dealing with the MOD, and they found that it was difficult to engage properly. They found the MOD bewildering and unlike any other company or institution. Maybe you want to tell us that the fear is unfounded, but that is what they told us.

**Vice Admiral Marshall:** I will defer to the Secretary of State, but I think that historically that has been the case, which is why we put the work in place, with a specific target, to work with our strategic suppliers. The vast majority of the feedback that we have had is about those onerous terms and conditions, and the length of time it takes to get to contract. Cashflow being really important to the SMEs, they cannot afford to wait forever to secure a bid, so reducing the time to contract and the way in which those terms and conditions flow through are two of the focus areas we are working on with the defence suppliers forum.

**Q244 David Duguid:** Is there more that the Government, or other organisations such as CBI Scotland, can do to help promote that idea, that it is not like it once was, that the perception might still linger, but the reality is different?

**Vice Admiral Marshall:** I agree. I think we have a communications issue. Communicating with the broad defence supply chain is huge in its range and scale. Communicating that message is something we could probably do better on, and the help of organisations such as the CBI is an area to explore.

**Mr Wallace:** While we need and appreciate the power of the primes to hold risk and to take the next batch of Type 26s, the potential billions of pounds that BAE are underwriting if it is late or delayed in a way will be costed by them. While that is absolutely key and just the reality of it in those types of programmes, it is important to effectively protect the rights of SMEs in that process. When the carrier alliance was put together to build the aircraft carriers, the important part was that no single prime ran the programme and it allowed the alliance to, in a sense, be the guardian of efforts by SMEs to be involved in it. Historically, people just hand it over to the big prime and whoever you use it up to them. Our drive in the MOD to get, I think, 25% of our procurement through SMEs means that we



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have a responsibility to try to protect them and bring them into that space.

On the shipbuilding strategy, things like the new innovation and SHORE really open up the possibility of ensuring that these SMEs become tomorrow's primes. It will be interesting to see—I am sure we can furnish you with the names of the Scottish companies that have engaged in this new, I think, DfT programme; SHORE was at BEIS—what their experience is and what their hopes are.

**David Duguid:** I think that would be useful.

Q245 **Chair:** The other issue that came up in our last report was the fact that only 2.5% of MOD spending with UK SMEs goes to Scottish SMEs. We were really concerned about that, and we are looking to be reassured that that figure will be improved on as we go forward, particularly with some of the business activity around Type 26.

**Mr Wallace:** Only 2.5% of—

**Chair:** 2.5% of MOD spending with UK SMEs goes to Scottish businesses.

**Mr Wallace:** Can I get back to you on that, because that sounds rather low?

**Chair:** Very low, and we were all disappointed with the fact that it was so low. We are looking for reassurance that that will change as we go forward.

Q246 **Sally-Ann Hart:** Good afternoon to our panel. To delve a bit further into skills, looking at the UK shipbuilding skills taskforce, we know that defence is retained and education is devolved, so when it comes to the UK defence sector working with the Scottish skills sector, does the taskforce facilitate the UK Government working with the Scottish Government to ensure that their skills policies complement each other?

**Rear Admiral Cox:** First, the NSO is an office of department of the MOD. It is not part of the MOD; it is independent, deliberately so, and so is the United Kingdom shipbuilding skills taskforce. We have set that up with volunteers from across the maritime enterprise, deliberately chaired by Dr Little. They independently interact with their Scottish counterparts and the other devolved Administrations in setting out the problem and coming up with the solutions. It is detached from Defence. Obviously, Defence plays a significant part in the shipbuilding enterprise, so they will be talking there, but they are into everything from the design element and the leisure sector to through-life support. It is the full panoply of skills. This is not just about solving the problem on metal workers or welders; it is design technology and programme managers—the whole panoply.

Q247 **Sally-Ann Hart:** It is steel workers, the defence sector—everything.

**Rear Admiral Cox:** Everything across the UK shipbuilding enterprise. I am often reminded that the national shipbuilding strategy refresh is the

strategy for the entire United Kingdom, and it is not just defence orientated.

Q248 **Sally-Ann Hart:** Thank you. Does anyone want to add to that?

**Mr Wallace:** The good thing about the strategy is that we have these other Departments sitting round the table that may not always have thought how key there are to delivering British shipbuilding. Ultimately, the fact that the skills thing goes right to the fingertips of it and goes right round and then meets up with the innovation part is important. It is also about raising their profile, and all these Departments realising it is a big industry. I visited the south-west of England the other day and discovered that there are 19,000 people employed in the maritime industry in the south-west. You would not think it—that is a huge amount. That is everything, from Sunseeker super-fast boats in Bournemouth through to Falmouth marina, but it is 19,000 jobs—it is a big number of people.

When I said that people thought of shipbuilding as a dirty word, I remember meeting a chief executive of a very big shipbuilding company who said, “We don’t really tell the City much about shipbuilding; we talk about our other functions.” Hopefully, that is going to change.

**Vice Admiral Marshall:** I have one final thought on that. Going back to the point about the obligation for some of those things in the contract, with the prime being local and the yards being local, the ability to manage retained versus devolved issues is sometimes best done at that local level by the company, with the Government holding them to account for what is in the contract. On the former question of what recourse we have if those obligations have not been met, one of the reasons that it is difficult to answer is that it hasn’t come up because they have been met. The workforce is coming through and the skills are coming through. The numbers that we expected are being managed, both locally and at a national level, working very collaboratively with the National Shipbuilding Office.

Q249 **Sally-Ann Hart:** In the course of our inquiry we heard slightly conflicted messaging. There is an issue with retention, recruitment and skills. We have also heard that apprenticeships were three or four times oversubscribed—I think it was with BAE—and yet there are complaints that there is a skills shortage. We have got the taskforce, which is Government, sorted. When it comes to employers, in the UK we have our skills White Paper, which is employer-led education. What sort of work are you doing, as the UK Government, with the employers in these shipyards in Scotland, for them to improve the skills they are offering? They know what skills they need. What are the UK Government doing with employers on the education side?

**Mr Wallace:** First, on the likes of BAE, Babcock and others’ skills academies, if you go to Govan, they are going to open a pretty large skills academy deliberately to grow those skills. In Barrow-in-Furness, they have got one to service the growing submarine industry there; I think their intake was 1,000 earlier in the year.



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The other point is that it goes beyond that. In my constituency in Lancashire, BAE recognise that they have a role to play in recruiting people early on and encouraging people into STEM skillsets, and so on. You find BAE active in my sixth forms. Now, Lancashire embraces that; like Scotland, we have a history of manufacturing and engineering—it is well embraced. It is not embraced all over the country, and people turn away from aerospace and industry companies like that, and do not really want them near their schools. What the Government can do is to say that it is part of the fabric of this country, it helps to keep us safe and it is not just about warships, but about a whole load of other things. There are skills for the civil sector—Thales radar, Thales sonar and fishing boats, and so on. What the Government can do, and what the Scottish Government can do, is to help open schools to those careers. I left the Scottish Parliament in 2003, so I do not know what the current Scottish career service is like for schools. But ultimately, I think, it starts there; it starts by letting these companies be part of schools, because no Government is going to do it on their own. I have seen Governments of all colours—in the end, you need to bring it to life.

On the point that Admiral Marshall mentioned about it being very localised, there is a plus and a negative to that. We are denying other people the chance to come and work in this industry that will eventually take them all over the world. That is like the oil industry; when I used to live in Aberdeenshire, people were getting on the plane at Aberdeen to go to Dallas half the time. The Gulf of Mexico and Dallas were where you found most of the Aberdonians, because that is where they were taking their skill base. We should be just as proud of that as of the ones at home.

**Q250 Sally-Ann Hart:** So businesses need to get into the schools and talk about what they are doing to introduce the—

**Mr Wallace:** Schools need to let FE colleges in. We still see the tension between HE and FE. Some schools just want their pupils to go to HE, as if somehow FE is a lesser thing. It is not a lesser thing in my book. Just look at the amazing growth of degree-led apprenticeships. It is also a choice of young people. Certainly in my part of the world, a lot of young people who are qualified go straight to university, but they don't want to. They want to go into an apprenticeship. You can get a degree-led apprenticeship into engineering and start to work at 18 or 19 and go all the way up.

You made one point that I think is important for me to test. As you say, on one level the prime says there is a skills shortage. I then hear about the number of applicants to do apprenticeships in its academy and I think, "Hang on; I don't get this. There are 5,000 applicants for 500 places, or whatever, but you are telling me there is a skills shortage." At which part of the skill pipeline is there a shortage? Is it the instructor, the specialist or the basic? You need the trainer to train the trainer. You need the highly skilled welder or systems integrator to train the next generation. I think we have to get the knowledge of that pipeline. I don't know whether Admiral Cox knows where in the pipeline there is a skills shortage.

**Q251 Sally-Ann Hart:** Where do you get the data from?



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**Rear Admiral Cox:** That is one of the big challenges that the taskforce is grappling with at the moment. We have talked about the primes and others investing in skills and training people, but we do not know if they are filling the gaps that exist or whether we are going to subsequently have a glut because we are overtraining in one area. That is one of the issues they have got to get after. Going back to the earlier question about collaboration versus competition, this is absolutely one of the areas where collaboration will be king. With Babcock and BAE in Scotland collaborating on the skills issue, the whole will be greater than the sum of the parts.

**Q252 Sally-Ann Hart:** It is really important for more people to go into this sector. I have some great defence manufacturing businesses in Hastings and Rye, by the way. We need to encourage more people to go into it. The Government need to send a clear demand signal to help employers and education institutions plan for the future of the workforce and to reassure those considering a career in shipbuilding. How are you going to do that, and what reassurance are you going to give them—for example, jobs in the pipeline or contracts down the line? Is that a certainty?

**Mr Wallace:** Some of it is about media. You see the Type 26 sail down the Clyde and you hear about these orders. But remember that these orders are for 15 to 20 years. When is batch 2 due to finish?

**Vice Admiral Marshall:** 2032.

**Mr Wallace:** There is 10 years of work there alone. Then of course in the pipeline would be 28 or whatever number the Navy comes up with—don't ask me, I don't know how they make the numbers up, to be honest. I think it is a long indication.

**Q253 Sally-Ann Hart:** We do need to grow our Navy, of course.

**Mr Wallace:** Remember that lots of young people face uncertainty in their careers no matter what they are doing. I think big aerospace projects actually have a lot more longevity than some other careers. Just talking about that is important, as is getting the National Careers Service into schools to say, "Have you thought about this?" There might also be work around how we help teachers understand what is there. This would be an interesting question: when was the last time Glasgow College encouraged schools to bring their teachers around the yards?

**Q254 Sally-Ann Hart:** I have one last thing to point out. What we did find in our defence inquiry—not the shipbuilding inquiry—was that because the UK Government do defence and the Scottish Government do education, there is a slight friction with, let's say, people moving to Scotland in the defence industry, be it soldiers, navy or whatever else. How can we—the Scottish Government and the UK Government—work through that? There is perhaps a slight reluctance for the Scottish Government to facilitate the defence personnel or industry in Scotland.

**Mr Wallace:** I would direct that part of the question at the Scottish Government. I used to go recruiting when I was in the Scots Guards and I remember not being allowed into some schools because they didn't want



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people to join the Army. In my book, that sort of attitude is denying some young people a fantastic career.

**Q255 Sally-Ann Hart:** It is such an important employer in Scotland—the whole of the defence industry.

**Mr Wallace:** Yes. To be fair, Scotland recognises the importance of the industry. I have to say that I have not sensed any friction between the Scottish Government and ourselves on the skills base; I have not sensed that at all.

The challenge is not at governmental level; it will be down in the weeds of the communities, and getting them to embrace alternatives for their young people other than what they have always done. I think that is important.

At the moment, it is still very localised. People in the north-east will talk about fishing and oil, while Govan will be fully embracing it. But how do we get people from—I don't know—Midlothian who have not thought about shipbuilding to go and work in it? That will be the question.

**Q256 David Duguid:** You mentioned the north-east of Scotland, which you represented, obviously, as an MSP. You mentioned it in terms of oil and fish, but of course through those two industries there is quite a strong history of maritime engineering. You mentioned earlier about getting into schools and FE colleges in Glasgow. What can you do, or what can the MOD and the UK Government do, to make sure that that reach-out is being done further afield, to places like the north-east of Scotland, the west coast or the northern isles, where this marine engineering history would exist?

**Mr Wallace:** We can do our part, but what I would say is that, with all due respect, you all have a part to play. You have a part to play, as your local MP, in telling your schools that it is a great career to be in, whether you are an MSP or an MP. Everyone has that part to play, and that is what I urge the unions to talk to their MSPs about, irrespective of the parties—encouraging the FE colleges and schools to send people to Govan to learn to be shipbuilders, or to be systems integrators. I think we all have a part to play.

Going back to my point about the shipbuilding strategy, getting Departments that have not thought about shipbuilding traditionally to be engaged—the inter-ministerial group that we have is a really good thing, actually. I hope that whatever happens in the next 10 to 15 years, it endures as a capability.

**Chair:** Are you satisfied, Sally-Ann?

**Sally-Ann Hart:** Yes. A sexy career—there you go.

**Q257 Chair:** Let us end on that note, shall we? Secretary of State, thank you ever so much; you have been very generous with your time in answering all our questions. I think there are a couple of things that you said you would write back to us about.

**Mr Wallace:** Yes, there are.

**Chair:** If you could do that reasonably promptly, we are looking to conclude this inquiry before Christmas.

We will now be embarking upon our next defence-related inquiry on the high north, and Scotland's position in the high north. We really hope that we get full co-operation and support, as we know we will, from the Ministry of Defence—

**Mr Wallace:** We will see if we can get you all up to the high north. It will be freezing cold—it would be lovely.

**Chair:** Yes, let us see if we can do that. Secretary of State, thank you ever so much for this afternoon. To the admirals, thank you, too, and we are grateful for all the MOD's support in this inquiry. It has been great, and I think we very much appreciate that. For today, we will end there.

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<sup>2</sup> Clarification from Ministry of Defence 15/12/2022: The NSO has five desks in Queen Elizabeth House, Edinburgh.

<sup>3</sup> Clarification from Ministry of Defence 15/12/2022: The Bay-class are being refitted in A&P Falmouth.

<sup>4</sup> Clarification from Ministry of Defence 15/12/2022: There were 22 Scottish organisations selected following the competition.

<sup>5</sup> Clarification from Ministry of Defence 15/12/2022: Raytheon is based in Glenrothes.