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Scottish Affairs Committee

Defence in Scotland: military shipbuilding

Fourth Report of Session 2022–23

Report, together with formal minutes relating to the report

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The Scottish Affairs Committee

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The National Shipbuilding Strategy

1. The UK Government's approach to procuring warships has shifted in recent years, and it is no longer the default position that warships will be designed and built fully in the UK, which was of concern to some in the Scottish military shipbuilding sector. (Paragraph 17)

2. If bids from Scottish yards are to be fairly compared with those of their international competitors, this process should be based on a full analysis of their respective benefits, including the benefits to the local economy and in additional tax revenue collected in the UK. However, it is not clear how the UK Government assesses the benefits that procuring military ships domestically delivers for the wider economy. It is important these benefits are properly understood so they can inform future decisions about where naval ships are to be built. (Paragraph 18)

3. *In its response to this report, the UK Government should set out what work it did, in preparing the National Shipbuilding Strategy Refresh, to estimate and measure the benefits of procuring ships domestically for the Scottish economy and the wider UK economy, and the revenue generated for the Scottish Government and HM Treasury. The response should also set out what conclusions were drawn from this work.* (Paragraph 19)

4. The decision to award the Fleet Solid Support (FSS) ships to the international consortium Team Resolute is an example of a shift in the UK Government's approach to warship procurement. We note that the UK Government chose the Team Resolute bid over a Team UK bid that would reportedly have supported more jobs in the UK, and Scotland in particular. The UK Government's decision appears to prioritise short-term savings over longer term economic gains for Scotland and the rest of the UK. Witnesses told us that the FSS decision would be a test of the new National Shipbuilding Strategy. (Paragraph 24)

5. *The UK Government should set out its reasoning for selecting Team Resolute as the preferred bidder for building the new order of Fleet Solid Support ships. Specifically, it should confirm whether the bid from Team Resolute offered the lowest price to the UK Government of the bids submitted.* (Paragraph 25)

6. The Secretary of State told us that Team UK's bid for the Fleet Solid Support contract was "non-compliant" with the terms of the competition but did not give further details. We would welcome further information to help understand the Government's reasoning. (Paragraph 26)

7. *In its response to this report, the UK Government should confirm on what date it determined that Team UK's bid for the Fleet Solid Support ships contract was non-compliant with the terms of the competition, what work was done to resolve the compliance issues identified, and on what date the decision to select a preferred bidder was made.* (Paragraph 27)

8. The export of the Type 26 and Type 31 design licences is a great success story for the Scottish shipbuilding industry, and we are confident that further exports will follow. At the same time, export opportunities cannot be depended upon to provide consistent work for the Scottish military shipbuilding industry in the same way as demand from the Royal Navy. (Paragraph 31)

9. *The role of exports of military ships/design licences in the National Shipbuilding Strategy should be to supplement, and not to replace, domestic demand. The UK Government should be prepared to use shipbuilding contracts strategically to sustain shipbuilding capacity in Scotland in circumstances where the export environment is more challenging than at present.* (Paragraph 32)

10. The creation of the National Shipbuilding Office is a welcome development that can bring greater coherence to shipbuilding planning. At the same time, we note that the NSO does not have formal powers and will therefore rely on its ability to manage and influence stakeholders. (Paragraph 37)

11. *The UK Government should carry out and lay before Parliament a formal evaluation of the contribution of the National Shipbuilding Office after two years, and again after five and ten years, to assess whether it has succeeded in driving better strategic decision-making in shipbuilding. As part of this review, the UK Government should specifically consider the question of, and publish conclusions on, whether the National Shipbuilding Office has sufficient powers to achieve its aims and whether it is able to gather adequate data on the military shipbuilding industry.* (Paragraph 38)

12. The establishment of a National Shipbuilding Office hub in Edinburgh provides a welcome link to Scottish shipbuilders. (Paragraph 39)

13. *To enhance its relationships with the Scottish shipbuilding sector, the National Shipbuilding Office should, by the end of 2023, establish a permanent staff presence in its Edinburgh hub, as the MoD and NSO have indicated.* (Paragraph 40)

The shipbuilding pipeline

14. We wish to underline the importance to Scottish shipyards of maintaining a dependable ‘drumbeat’ of orders to allow them to invest and grow. The days of ‘feast and famine’ must not return. The creation of the National Shipbuilding Strategy suggests that the UK Government appreciates the importance of this point. However, there remains some uncertainty about the pipeline in the 2030s and 2040s, such as the basis on which the Type 45 destroyers will be replaced. The Scottish shipbuilding industry should not be given cause to doubt that it will have a consistent order book in the future, so long as it continues to deliver on its commitments to its Government customers. (Paragraph 51)

15. *The UK Government should provide greater clarity about the work that will fill the whole of the 30-year shipbuilding pipeline into the 2030s and 2040s. It is of course difficult to calculate precise military needs beyond 2050. However, the UK Government should give Scottish shipbuilders the confidence to continue to invest in the future with a clear commitment that it will strategically use its contracts to sustain the national capacity to design and build warships in Scotland, so long as industry continues to*

deliver on its own contractual commitments. (Paragraph 52)

16. Recent developments have introduced uncertainty about some orders in the pipeline and whether it sets out a clear ‘drumbeat’ of orders needed to sustain Scottish shipyards. The Fleet Solid Support Ships and the National Flagship are two examples. There has been some media speculation about the Type 32s, although the UK Government have stated: “The strategic and long-term investments continue to be on track and will increase the capability and size of the fleet.” (Paragraph 53)

17. *In its response to this report, and in its annual shipbuilding update to the Defence Select Committee, the UK Government should provide an update on the current status of the military shipbuilding pipeline for Scottish naval yards. In particular, it should confirm whether the MOD still intends to order the Type 32 frigates as set out in the National Shipbuilding Strategy Refresh, and whether the timeline for the Type 32s has changed as a result of concerns about the affordability of the initial plans. The MOD should also set out whether the cancellation of the National Flagship has created a gap in the pipeline, and if so how this gap will be filled.* (Paragraph 54)

18. The award of the contract to build five additional Type 26 frigates to BAE Systems is welcome news for Scottish shipbuilding, and importantly continues the shipbuilding ‘drumbeat’ into the medium-term. We note that, partly as a consequence of global challenges, the first batch of Type 26 vessels has faced delays and increased costs. (Paragraph 58)

19. *Given the ongoing global uncertainties we ask the UK Government to provide annual updates on the construction of the Type 26 vessels to both Houses of Parliament. We note that the Defence Select Committee has made a similar recommendation, but that the Ministry of Defence has not yet provided such an update.* (Paragraph 59)

20. The decision to select Team Resolute bid as the preferred bidder for the upcoming order of Fleet Solid Support ships could create a potential gap in the workstream for the Scottish warship industry. (Paragraph 62)

21. *In its response, the UK Government should set out how much capacity it expects to now be available in the Scottish warship industry in each of the years between 2025–2032 as a result of the decision to select Team Resolute rather than Team UK as the preferred bidder for the latest order of Fleet Solid Support ships. It should also set out what work could potentially make use of that capacity in the absence of the FSS.* (Paragraph 63)

Scottish SMEs and shipbuilding supply chains

22. We note that the MOD did not agree with the concerns expressed by Scottish SMEs during our Defence in Scotland: military landscape inquiry about the difficulties they experienced engaging with the Ministry. The steps the UK Government outlined in its response to our report are encouraging; however, we believe the Government is missing an opportunity by not doing more to encourage innovation and collaboration by supporting SME clusters around Scotland’s shipyards. (Paragraph 69)

23. *The Ministry of Defence should, in line with its commitments in the National Shipbuilding Strategy and the UK Government's commitments in Maritime 2050, work specifically to develop shipbuilding clusters in Scotland. In responding to this report, the UK Government should update us on what it has already done to support the growth of the Scottish Maritime Cluster as was promised in the Maritime 2050 strategy in 2019. To support the growth of these clusters the MOD needs to address barriers to Scottish SMEs working with the Ministry.* (Paragraph 70)

24. *The Ministry of Defence should report back to us at the end of the financial year to confirm whether it met its target of spending 25 per cent of its procurement spend with SMEs. In addition, it should provide an update on what proportion of its spend with SMEs is spent with Scottish SMEs.* (Paragraph 71)

25. We heard that including a social value component in shipbuilding contracts can help deliver benefits for the wider economy and in shipbuilding communities. However, there are challenges in measuring how effectively those commitments are being delivered on. (Paragraph 74)

26. *The MOD should set out how it evaluates social value in competitions, how it measures the delivery of social value in the contracts it negotiates, and how it holds contractors accountable to ensure they meet those targets. It should also, as contracts progress, track the delivery of social value and challenge contractors where targets are in danger of being missed. We encourage the Scottish Government to provide any assistance it can in measuring and monitoring social value of these contracts to local authority areas and economies.* (Paragraph 75)

27. We heard that historically the Ministry of Defence's understanding of shipbuilding supply chains had been a vulnerability. The Secretary of State told us this had subsequently improved. The new Defence Supply Chain Strategy's emphasis on building resilience in supply chains is welcome, and improving understanding of supply chains further will help to achieve this aim. (Paragraph 78)

28. *The Ministry of Defence should publish data on the composition of shipbuilding supply chains, to assist understanding of how the UK shipbuilding industry is structured. This should include regional breakdowns so that the extent of local supply chains and industry clusters can be better understood by Government and industry.* (Paragraph 79)

29. We heard evidence that the MOD and the Scottish Government could both have a better understanding of the skills profile of the shipbuilding workforce. This makes workforce planning for a highly advanced sector like military shipbuilding more challenging. (Paragraph 87)

30. *Building on the work of the UK Shipbuilding Skills Taskforce, the Ministry of Defence should commission regular research to develop and keep up to date its understanding of the current and future skills profile of the shipbuilding workforce, and the skills needed by the shipbuilding sector. Given education and skills are devolved matters, we equally encourage the Scottish Government to develop its understanding of the skills profile required in the shipbuilding sector. This will help both Governments, education sectors and the shipbuilding industry to anticipate and respond to the needs of Scottish yards.* (Paragraph 88)

Skills in Scottish shipbuilding

31. The creation of the UK Shipbuilding Skills Taskforce shows a welcome recognition of the importance of long-term workforce planning in shipbuilding. This kind of planning is essential if Scottish yards are to have the highly-skilled workers they need to thrive in the future. We look forward to the publication of the Taskforce's report in September 2023. (Paragraph 93)

32. *We invite the UK Shipbuilding Taskforce, together with UK Government Ministers, to give oral evidence to the Committee when the UKSST's report is published in autumn 2023, so that its findings can be discussed further and priorities identified to ensure Scottish shipyards have the skills they need.* (Paragraph 94)

33. We wish to underline that the additional complexity of building warships demands highly specialised skills and knowledge, and that these will need to be updated and refreshed as warship design and manufacture evolves. (Paragraph 95)

34. *The UK Shipbuilding Skills Taskforce's report should identify the skills demands of the warship industry specifically, as well as steps that can be taken to meet those needs.* (Paragraph 96)

35. Skills policies will best support the shipbuilding industry if the UK and Scottish Governments' approaches complement each other. For this to happen, education policymakers in Scotland will need to be able to receive clear signals about the skills needs of the defence sector, and will need routes for working together with the UK Government and other devolved administrations to respond to those needs. (Paragraph 97)

36. *The UK Shipbuilding Skills Taskforce should have a specific objective to encourage coordination between different jurisdictions in the UK, so that a common effort can be made towards supporting shipbuilding in Scotland and other parts of the UK.* (Paragraph 98)

Introduction

Shipbuilding in Scotland

1. Scotland is a centre of naval shipbuilding in the United Kingdom. The Ministry of Defence spend on naval shipbuilding in Scotland is second only to that in the North-West,[1] and Scottish shipyards have contributed to the development and construction of a large proportion of the Royal Navy's historical and active fleet. Scottish yards are renowned for their expertise in building combat vessels, the construction of which presents particular challenges for industry. The UK Government has committed to a number of complex warships being built in Scotland in the future, including the new Type 26 anti-submarine warfare frigates and the Type 31 frigates due to be built in the 2020s. Scotland's maritime expertise and dry dock infrastructure also allows maintenance and repair work to be carried out there, such as the current repairs to HMS Prince of Wales being undertaken at Rosyth.

2. Military shipbuilding makes a significant contribution to the Scottish economy and to local communities. The Ministry of Defence spent £1.11 billion on shipbuilding in Scotland in 2020/21, and that spending supported 7,700 shipbuilding jobs.[2] Many of these jobs are highly skilled, and the average salary in the industry is £36,500 per year, 20 per cent higher than the UK average.[3] It is estimated that each shipbuilding job supports a further 1.51 jobs in the wider Scottish economy.[4]

3. The capacity for building naval warships in Scotland also helps to maintain the UK's sovereign shipbuilding capability and its operational independence, something which the UK Government recognises in its Defence and Security Industrial Strategy.[5] Furthermore, since 2015 the Ministry of Defence has been under direction to contribute to national prosperity, including most recently the 'levelling up' agenda and economic recovery from Covid.[6]

Our inquiry

4. Our previous report, *Defence in Scotland: military landscape,* noted that

> the military shipbuilding sector provides an important pipeline of highly skilled jobs for Scottish industry. While current Royal Navy Type 26 and Type 31 orders are very welcome, the future of the sector is dependent on favourable UK Government policies and a regular 'drumbeat' of orders.[7]

The report also noted that the UK Government's naval procurement policy has opened up the possibility of warships being procured and/or built overseas, and that this policy

1 Ministry of Defence, MOD regional expenditure with UK industry and supported employment: 2020/21, 20 January 2022 (N.B. It should be noted that a large proportion of shipbuilding spend in the North-West is in submarine manufacturing, and the total spent on surface ships will be lower)
2 Ministry of Defence, MOD regional expenditure with UK industry and supported employment: 2020/21, 20 January 2022
3 ADS Group Ltd (DIS0024)
4 The Confederation of Shipbuilding and Engineering Unions (CSEU) (DIS0025)
5 HM Government, Defence and Security Industrial Strategy, CP 410, 23 March 2021, p. 92
6 Professor Trevor Taylor, RUSI (DIS0033)
7 First Report of Session 2022–23, Defence in Scotland: military landscape, HC 82, p. 18

"could have a dramatic impact on shipbuilding in Scotland."[8] Given the importance of these issues, we agreed to make shipbuilding the next focus of our multi-part *Defence in Scotland* inquiry.

5. We launched a call for evidence in February 2022, inviting contributions on the following questions:

- What impacts are the Government's Shipbuilding Strategy and National Shipbuilding Office having on the shipbuilding industry in Scotland?
- How many and what types of Royal Navy ships will likely be built in Scotland in the years ahead? Will the sector grow?
- How does the procurement approach for each class of Royal Navy ship being determined on a case-by-case basis (including whether or not there should be international competition) affect Scottish shipbuilding?
- To what extent does Scotland benefit from exporting military ships (or parts of them) and/or their design licences? How can these opportunities be maximised?
- What more could the UK Government do to maintain and foster military shipbuilding in Scotland?

Our focus for this inquiry was on surface ships, although we note that the Royal Navy's submarine fleet based at HM Naval Base Clyde is also an important source of employment in Scotland.

6. We received a number of written evidence submissions from stakeholders. We also held four public evidence sessions at which we heard from shipbuilding companies, trade union representatives, academics and the UK and Scottish Governments. We also visited BAE Systems' shipyard in Govan and Babcock's dockyard in Rosyth in July 2022. We would like to thank all those who contributed to the inquiry for their insights, and to BAE and Babcock for welcoming us to their facilities. We are also very grateful to our specialist adviser for this inquiry, Professor Trevor Taylor of the Royal United Services Institute, for his support.

The report

7. This report examines the National Shipbuilding Strategy and its implications for Scotland, including the role of the newly created National Shipbuilding Office and the Ministry of Defence's approach to procurement and its support for shipbuilding exports (Chapter 2). It looks at the shipbuilding pipeline and the current 'drumbeat' of orders, including recent announcements about the second batch of Type 26 frigates and Fleet Solid Support ships and what opportunities these present for Scottish shipbuilding (Chapter 3). It explores shipbuilding supply chains and the MOD's spending with Small and Medium-sized Enterprises in Scotland (Chapter 4). Finally, the report looks at the shipbuilding workforce and efforts to address the skills challenges facing shipbuilding, including through the creation of the UK Shipbuilding Skills Taskforce (Chapter 5).

8 First Report of Session 2022–23, Defence in Scotland: military landscape, HC 82, p. 18

1 The National Shipbuilding Strategy

8. Shipbuilding in the UK is currently underpinned by the National Shipbuilding Strategy (NSbS). The Strategy was originally launched in 2017, with the aim of reforming the way in which the Ministry of Defence (MOD) procures naval ships and making the UK's maritime industry more competitive.[9] The NSbS was a response to an independent report by Sir John Parker which was commissioned by the UK Government to inform the development of the strategy.[10] The document was later built upon in the Refresh to the National Shipbuilding Strategy (NSbS Refresh) in 2022, which was intended to cover military and non-military shipbuilding across all Government departments and devolved administrations.[11] Among other things, the NSbS Refresh:

- creates a National Shipbuilding Office;
- lays out a 30 year cross-Government shipbuilding pipeline;
- sets up initiatives aimed at encouraging innovation and improving competitiveness in UK shipbuilding;
- establishes measures to promote shipbuilding exports; and
- sets up initiatives to develop skills in the shipbuilding workforce, including a UK Shipbuilding Skills Taskforce.[12]

The Refresh sits within the responsibilities of the Secretary of State for Defence as the UK Government's Shipbuilding Tsar.[13] Alongside the Shipbuilding Strategy the Government has a wider Maritime Strategy, *Maritime 2050*, which aims to support the UK's maritime industries more broadly. The Maritime Strategy was published in 2019, after the publication of the original National Shipbuilding Strategy, and its sections on military shipbuilding reflect those of that document.[14]

9. Scottish shipbuilders who spoke to us during the inquiry welcomed the NSbS Refresh. Sir Simon Lister, the Managing Director of BAE Systems Naval Ships, said

> Its extension into skills and equipment and beyond the yards themselves is very welcome, because shipbuilding in this country intimately involves the supply chain and the yards themselves. Visibility of the order book for the long term is created by the national shipbuilding strategy, and I think the ambition that it contains for environmental modernisation and improvement of our shipbuilding productivity, quality and safety is explicit and welcomed by all of us.[15]

John Howie, Chief Corporate Affairs Officer at Babcock, agreed that the Refresh document

9 HM Government, National Shipbuilding Strategy, 6 September 2017
10 HM Government, UK National Shipbuilding Strategy: an independent report, 29 November 2022
11 HM Government, Refresh to the National Shipbuilding Strategy, CP 605, 10 March 2022
12 HM Government, Refresh to the National Shipbuilding Strategy, CP 605, 10 March 2022
13 HM Government, Refresh to the National Shipbuilding Strategy, CP 605, 10 March 2022, p. 9
14 Department for Transport, Maritime 2050: Navigating the Future, 24 January 2019
15 Q63

> covers all the right things. Its remit has been expanded, and that focus on generating a globally competitive, sustainable industry is hard to argue with.[16]

10. Other contributors said that aspects of the strategy needed to be made clearer to give the industry the certainty it needed. Richard Powell of the Society of Maritime Industries told us "The national shipbuilding strategy talks about investment from industry, but the strategy does not give all that much certainty. It talks about potential and directions of travel."[17] Hans Pung of RAND Europe said "Although the strategy is strong on vision, it is weaker where there is less clarity on details around how to achieve some of the objectives, particularly as one looks to objectives around productivity."[18]

Procurement

11. The National Shipbuilding Strategy set out the Government's approach to building naval ships. The 2017 version of the document accepted Sir John Parker's recommendation that "[w]arships should be built in the UK for reasons of national security and the sustainment of National Sovereign Capabilities"[19] and made the commitment that

> all Royal Navy warships (destroyers, frigates and aircraft carriers) will continue to have a UK-owned design, and, will be built and integrated in the UK. Warship build will be via competition between UK shipyards. But international partners will be encouraged to work with UK shipyards and other providers to produce the best possible commercial solution.[20]

The Strategy adds that "all other naval ships should be subject to open competition."[21]

12. In 2021 this policy changed. The Defence and Security Industrial Strategy (DSIS) published that year no longer included a clear commitment to build warships in the UK; instead it said

> The procurement approach for each class [of ship] will be determined on a case-by-case basis. As well as considering the specific capability requirements, we will consider the long-term industrial impact of different options, including delivering value for money for our overall programme and maintaining the key industrial capabilities required for operational independence. These considerations will determine whether the optimum approach would be a single source procurement, a UK competition, an international competition or a blended competitive approach.[22]

The National Shipbuilding Strategy Refresh, published in 2022, reiterated the UK Government's preference for a 'case-by-case' approach.[23]

16 Q64
17 Q6
18 Q130
19 GOV.UK, National Shipbuilding Strategy, 6 September 2017, p. 52
20 GOV.UK, National Shipbuilding Strategy, 6 September 2017, p. 33
21 GOV.UK, National Shipbuilding Strategy, 6 September 2017, p. 33
22 HM Government, Defence and Security Industrial Strategy, CP 410, 23 March 2021, p. 92
23 HM Government, Refresh to the National Shipbuilding Strategy, CP 605, 10 March 2022

13. Some contributors to our inquiry told us there were advantages to a 'case-by-case' approach. The UK Defence Journal said it was "hard to see any other realistic alternative to ordering ships on a case-by-case basis" and argued that "ships being awarded on a case-by-case basis encourages competition, innovation and (in theory) the driving down of costs."[24] Other contributors observed that there was a tension between a policy of case-by-case procurement and the objective of developing the capacity of UK shipbuilding. Professor Trevor Taylor of the Royal United Services Institute, who acted as specialist adviser to this inquiry, expressed concern in written evidence to the Committee that

> the original NSS and its Refresh version in 2022 placed more emphasis on the benefits of competitive tendering than was justified if a key aim is to maintain and develop the industrial capability in the UK to deliver advanced warships.[25]

14. Some contributors said they believed the way the Government evaluates bids does not take sufficient account of the benefits that defence spending in Scotland brings to the wider economy. Discussing the 'social value' element of the tendering process (explored further in Chapter 4), Ian Waddell of the Confederation of Shipbuilding and Engineering Unions (CSEU) made the case:

> There are some obvious social values, such as how many UK jobs does a project support, how many UK supply-chain companies does it support, what level of tax and National Insurance would be returned to the Treasury, what level of corporation tax would be paid to the Treasury if the contract was awarded to company X or company Y. Those seem to be fairly obvious measures of social value and they are completely absent.[26]

Research from the Royal United Service Institute cited by our witnesses estimates that around a third of Government defence spending spent in the UK is returned to the Exchequer.[27]

15. Witnesses argued that Scottish shipbuilders did not operate under normal market conditions and so did not compete on a level playing field. John Howie from Babcock told us

> many of the people that Babcock and BAE compete with internationally are state owned or state sponsored and, therefore, competitiveness is a relative term. Obviously they are funded in a different way to the way we are as private companies. That allows them to bid quite aggressively for programmes.[28]

Professor Keith Hartley agreed that

> [w]e are not talking about a real market here. It is a market heavily influenced by states, by Governments, and by a role for quite often state-owned shipbuilding companies.[29]

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24 UK Defence Journal (DIS0022)
25 Professor Trevor Taylor, RUSI (DIS0033)
26 Q28
27 Royal United Services Institute, The Destinations of the Defence Pound, January 2012, p. 5–6
28 Q101
29 Q160

16. As an alternative to a case-by-case approach, the Confederation of Shipbuilding and Engineering Unions and the Society of Maritime Industries argued for a policy that "promotes a collaborative approach between UK contractors based on modular builds and the development of specialisms in each yard."[30]

17. **The UK Government's approach to procuring warships has shifted in recent years, and it is no longer the default position that warships will be designed and built fully in the UK, which was of concern to some in the Scottish military shipbuilding sector.**

18. **If bids from Scottish yards are to be fairly compared with those of their international competitors, this process should be based on a full analysis of their respective benefits, including the benefits to the local economy and in additional tax revenue collected in the UK. However, it is not clear how the UK Government assesses the benefits that procuring military ships domestically delivers for the wider economy. It is important these benefits are properly understood so they can inform future decisions about where naval ships are to be built.**

19. ***In its response to this report, the UK Government should set out what work it did, in preparing the National Shipbuilding Strategy Refresh, to estimate and measure the benefits of procuring ships domestically for the Scottish economy and the wider UK economy, and the revenue generated for the Scottish Government and HM Treasury. The response should also set out what conclusions were drawn from this work.***

Fleet Solid Support ships

20. The competition to build the Royal Navy's Fleet Solid Support (FSS) ships was considered by some witnesses to be an important test of how the UK Government would approach naval procurement in the future. The Fleet Solid Support ships are part of the Royal Fleet Auxiliary which provides logistical and operational support to the Royal Navy worldwide. The Strategic Defence and Security Review 2015 confirmed that three new large solid support ships would be acquired for the Royal Fleet Auxiliary.[31]

21. The Ministry of Defence told us in March 2022 that the Fleet Solid Support ships would be classified as warships and that "the programme is exempt from requiring international competition."[32] However, MOD had indicated in its Defence and Security Industrial Strategy the previous year that "the procurement approach for each class (of ship) will be determined on a case-by-case basis." Indeed, despite what we were told in March 2022 the MOD subsequently pursued a competitive approach to the Fleet Solid Support ship competition, awarding Competitive Procurement Phase contracts to several multinational consortia.[33] Before the preferred bidder was announced, our specialist adviser Professor Trevor Taylor told us in written evidence that "only one of these bidders includes an offering that is likely to benefit Scotland" referring to the bid from Team UK which included BAE Systems and Babcock.[34] A submission from Babcock indicated that Team UK's bid "will see a significant amount of work undertaken in Scotland (Rosyth and Govan)."[35]

30 The Confederation of Shipbuilding and Engineering Unions (CSEU) (DIS0025)
31 HM Government, National Security Strategy and Strategic Defence and Security Review 2015, Cm 9161, 23 November 2015, p. 28
32 Q232 (see also footnote 4 in the same transcript)
33 HM Government, Press release: UK enters next stage of Fleet Solid Support competition, 1 September 2021
34 Professor Trevor Taylor, RUSI (DIS0033)
35 Babcock International (DIS0029)

22. In November 2022 the Secretary of State confirmed in a Written Statement that the MOD had selected Team Resolute as its preferred bidder; the consortium consists of Harland & Wolff, BMT and Navantia UK, a UK subsidiary of the Spanish state-owned shipbuilding company Navantia.[36] On 18 January 2023 the Government confirmed in a Written Statement that the contract had been placed with Team Resolute. The Secretary of State told us that the Team Resolute bid would create work in Methil and Arnish yards in Scotland.[37] However, as noted above, it is argued the benefits to Scotland of the Team UK proposal would have been more significant. At a UK-wide level, it has been said that the Team UK bid would have supported 6,000 shipbuilding jobs compared with 2,000 under the Team Resolute bid.[38] The Resolute bid was promoted as bringing £77 million of investment in shipyard infrastructure, yet it is reported that Team UK's bid would have offered investment of £90 million in infrastructure as well as £54 million in apprenticeships and training.[39] The Secretary of State told us that Team UK's bid was "non-compliant" but did not give further details.[40]

23. Prior to the announcement of the preferred bidder, witnesses had told us that the FSS competition was seen as an important indicator of how the MOD might approach naval procurement in the future. Ben Carpenter Merritt of Babcock said the decision

> will be an interesting benchmark of where the Government are on the delivery of the national shipbuilding strategy. I think it has the potential to challenge the status quo. International competitors will definitely be watching to see how this procurement pans out.[41]

Richard Powell of the Society of Maritime Industries told the Defence Committee "the industry sees the FSS as the litmus test for the credibility of the national shipbuilding strategy."[42]

24. **The decision to award the Fleet Solid Support (FSS) ships to the international consortium Team Resolute is an example of a shift in the UK Government's approach to warship procurement. We note that the UK Government chose the Team Resolute bid over a Team UK bid that would reportedly have supported more jobs in the UK, and Scotland in particular. The UK Government's decision appears to prioritise short-term savings over longer term economic gains for Scotland and the rest of the UK. Witnesses told us that the FSS decision would be a test of the new National Shipbuilding Strategy.**

25. ***The UK Government should set out its reasoning for selecting Team Resolute as the preferred bidder for building the new order of Fleet Solid Support ships. Specifically, it should confirm whether the bid from Team Resolute offered the lowest price to the UK Government of the bids submitted.***

26. **The Secretary of State told us that Team UK's bid for the Fleet Solid Support contract was "non-compliant" with the terms of the competition but did not give further details. We would welcome further information to help understand the Government's reasoning.**

36 HC Deb, 16 November 2022, Col. 17WS [Commons Written Ministerial Statement]
37 Q177
38 HC Deb, 18 November 2022, Col. 961 [Commons Chamber]
39 HC Deb, 18 November 2022, Col 960; HC Deb, 15 November 2022, Col 618
40 Q184
41 Q84
42 Evidence taken before the Defence Select Committee on 17 May 2022, Q26

27. ***In its response to this report, the UK Government should confirm on what date it determined that Team UK's bid for the Fleet Solid Support ships contract was non-compliant with the terms of the competition, what work was done to resolve the compliance issues identified, and on what date the decision to select a preferred bidder was made.***

Exports

28. The National Shipbuilding Strategy Refresh (NSbS) emphasises the export opportunities that exist for UK shipbuilding. Chapter 5 of the NSbS Refresh says UK shipbuilding "requires a strong export pipeline to ensure long-term sustainability." The NSbS Refresh argues that exports benefit shipbuilding by increasing revenue and foreign direct investment and by creating "a virtuous circle of improved export performance."[43] The Secretary of State told us that successful exports helped the UK to afford its own naval capability.[44] The Strategy points to the recent successful export of the Type 26 frigate design licence to the Royal Australian Navy and the Royal Canadian Navy, which BAE Systems estimates will create or sustain 5,000 jobs in the UK and create around £6 billion of potential export contracts for UK suppliers.[45] Babcock's Type 31 frigate design has also enjoyed export success with Poland and Indonesia, and the company is reportedly in active discussions regarding further export opportunities.[46]

29. The National Shipbuilding Strategy Refresh sets out some of the actions the UK Government will take to promote naval exports. In 2022 a new Marine Capability Campaign Office (MCCO) was established to promote both military and civilian trade opportunities.[47] The Refresh also points to the UK Government's Export Development Guarantee scheme, which gives lenders a partial guarantee on loans to UK exporters, and its Export Insurance Cover, which offers insurance that can cover up to 95 per cent of an export contract. Both schemes are run by UK Export Finance.[48] The Secretary of State described this as a "key part of the national shipbuilding strategy" that would incentivise bringing work to UK yards.[49]

30. Contributors to the inquiry told us that exports could deliver significant benefits for Scottish shipbuilding. The Society of Maritime Industries noted that, even when ships themselves are not built in UK yards, a large proportion of the value of shipbuilding programmes comes from the equipment and systems fitted onto the platform, and from the maintenance and support provided throughout the lifespan of those systems.[50] The UK Defence Journal pointed out that, even when vessels are not built in the UK, exporting vessels still brings benefits in the form of reduced unit costs.[51] Other witnesses had reservations about emphasising exports as part of the National Shipbuilding Strategy. Hans Pung of RAND Europe said that

43 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.58
44 Q219
45 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.60
46 Naval Today, More countries to buy Type 31 frigate design, 12 August 2022
47 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.60
48 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.63
49 Q223
50 Society of Maritime Industries (DIS0027)
51 UK Defence Journal (DIS0022)

> export markets are very fickle. They are very able to be influenced by politics and by price, and they often focus on the sorts of platforms that the UK does not always produce, because we tend to focus more on high-end, higher-cost ships.

Because of this combination of factors, he argued it is "slightly challenging to rely too much on exports in your shipbuilding strategy."[52]

31. **The export of the Type 26 and Type 31 design licences is a great success story for the Scottish shipbuilding industry, and we are confident that further exports will follow. At the same time, export opportunities cannot be depended upon to provide consistent work for the Scottish military shipbuilding industry in the same way as demand from the Royal Navy.**

32. ***The role of exports of military ships/design licences in the National Shipbuilding Strategy should be to supplement, and not to replace, domestic demand. The UK Government should be prepared to use shipbuilding contracts strategically to sustain shipbuilding capacity in Scotland in circumstances where the export environment is more challenging than at present.***

The National Shipbuilding Office

33. In September 2021 the Secretary of State for Defence announced the launch of a new National Shipbuilding Office (NSO), tasked with "driving forward one of the Prime Minister's key domestic priorities across government, working in close collaboration with the sector industrial partners and supply chain."[53] The National Shipbuilding Strategy Refresh explains the role of the NSO in more detail:

> The NSO will use its strategic viewpoint and evidence base to support Government decision making, the development of future strategy and the holding to account of both Government Departments and industry for their role in delivering our shared vision for the sector.[54]

According to the Refresh document, the NSO "takes ownership of the National Shipbuilding Strategy and is empowered to align Departmental activity with the ambition and approach herein.[55] Its remit extends to all kinds of UK shipbuilding, not just military. It is an independent body and not based within a UK Government department.

34. Contributors to our inquiry saw merit in the creation of the National Shipbuilding Office as a planning and co-ordination body; at the same time, we heard that it was uncertain how the NSO would shape decision-making and drive transformation in the industry in the absence of formal powers. Hans Pung of RAND Europe told us it was "difficult to see whether [the NSO] has the ability to drive transformational change across the industry, given it doesn't have the ability to mandate specific strategies."[56] At the same time, it was noted that it may not be desirable for the NSO to have formal powers; Mr Pung

52 Q160
53 HM Government, Press release: Defence Secretary announces launch of National Shipbuilding Office, 13 September 2021
54 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.17
55 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.16
56 Q139

said "it would be very difficult to have a National Shipbuilding Office that is empowered to do all the things I was talking about with respect to transformation, because that would emasculate the ability of individual Government project teams to make decisions in the best interests of their own programmes." Instead, he suggested the NSO's "real power is being able to co-ordinate, convene and bring stakeholders together" and that it could also usefully serve as a focal point for industry to talk to.[57]

35. Witnesses also saw data collection as a key aspect of the NSO's role, as a means of building a more detailed understanding of UK shipbuilding. Professor Keith Hartley of the University of York noted that "there is a lot we do not know" about the UK shipbuilding sector, and there is an absence of reliable data to measure labour productivity or the skills composition of the industry.[58] Hans Pung said the NSO was "probably the best place in the country to coalesce data and knowledge to inform procurement strategies more broadly."[59] The CEO of the Office, Rear Admiral Rex Cox, was confident that the NSO had the data it needed to make strategic decisions:

> 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.[60]

36. The Ministry of Defence told us that the National Shipbuilding Office would have offices in both Whitehall and Edinburgh. Hans Pung of RAND Europe said this would give the NSO a "link to Scottish shipbuilding" that was "long overdue, but […] very welcome."[61] The MOD told us that the NSO's presence in Edinburgh consists of five desks at the UK Government Hub in Queen Elizabeth House.[62] The Chief Executive of the NSO, Rear Admiral Rex Cox, said that of the NSO's 30 staff none were permanently based in Scotland, but that they were a "hybrid team" and he hoped this would change. The Secretary of State for Defence said he would "like to see more permanent use of that office."[63]

37. **The creation of the National Shipbuilding Office is a welcome development that can bring greater coherence to shipbuilding planning. At the same time, we note that the NSO does not have formal powers and will therefore rely on its ability to manage and influence stakeholders.**

38. ***The UK Government should carry out and lay before Parliament a formal evaluation of the contribution of the National Shipbuilding Office after two years, and again after five and ten years, to assess whether it has succeeded in driving better strategic decision-making in shipbuilding. As part of this review, the UK Government should specifically consider the question of, and publish conclusions on, whether the National Shipbuilding***

57 Q139
58 Q129; Q142
59 Q140
60 Q218
61 Q139
62 Q217 (see footnote 2)
63 Q217

Office has sufficient powers to achieve its aims and whether it is able to gather adequate data on the military shipbuilding industry.

39. **The establishment of a National Shipbuilding Office hub in Edinburgh provides a welcome link to Scottish shipbuilders.**

40. ***To enhance its relationships with the Scottish shipbuilding sector, the National Shipbuilding Office should, by the end of 2023, establish a permanent staff presence in its Edinburgh hub, as the MOD and NSO have indicated.***

2 The shipbuilding pipeline

Benefits of a shipbuilding 'drumbeat'

41. A theme we heard repeatedly emphasised during our inquiry was the importance of a regular 'drumbeat' of orders to provide a consistent workload that could help industry plan for the future. Stakeholders from all parts of the sector stressed that shipbuilding is an industry that operates on long timescales and which required significant forward planning. We were told that in the past shipbuilding in the UK had suffered from a pattern of 'feast and famine', with a sporadic and unpredictable pattern of orders, which had discouraged investment in the industry, increased costs and programme risk, and made shipbuilding a less attractive career option.[64] The UK Defence Journal reported that the situation had improved in recent years.[65] However, the General Secretary of the Confederation of Shipbuilding and Engineering Unions, Ian Waddell, warned that "we could be looking at the same issue again if we do not get the distribution of work correct and the right drumbeat of contracts going through the yards."[66]

42. Stakeholders also emphasised that a steady 'drumbeat' could underpin future investment that would make the industry more productive in the future. Mr Waddell told us:

> It is a very simple equation. If businesses are faced with uncertainty, they do not invest. If they are faced with certainty and can guarantee a reasonable level of return on their investment, they will put the investment in.[67]

Richard Powell of the Society of Maritime Industries described how this could lead to a more efficient shipbuilding sector:

> Achieving true efficiency is not about competition in the procurement process. It is about having the long-term surety that the industry can make the investments necessary to drive down the costs of production. If you are only getting short-term orders and you do not know where the next order will come from, it is very hard to make the business case to get the productivity increase.[68]

We heard that a consistent drumbeat also made it easier to recruit and retain skilled staff (See Chapter 5).[69]

The current pipeline

43. In written evidence, the UK Defence Journal set out their understanding of the shipbuilding pipeline for BAE Systems and Babcock as of April 2022 (Table 1).

64 BAE Systems (DIS0030)
65 UK Defence Journal (DIS0022)
66 Q2
67 Q3
68 Q12
69 UK Defence Journal (DIS0022); BAE Systems (DIS0030); Q144

Table 1: Projected 'pipeline' of work for Scottish shipyards

Name	Class	Location	Launch Period
HMS Glasgow	Type 26 (Batch 1)	Glasgow	2020s
HMS Cardiff	Type 26 (Batch 1)	Glasgow	2020s
HMS Belfast	Type 26 (Batch 1)	Glasgow	2020s
HMS Birmingham	Type 26 (Batch 2)	Glasgow	2020s
HMS Sheffield	Type 26 (Batch 2)	Glasgow	2020s
HMS Newcastle	Type 26 (Batch 2)	Glasgow	2020s
HMS Edinburgh	Type 26 (Batch 2)	Glasgow	2030s
HMS London	Type 26 (Batch 2)	Glasgow	2030s
HMS Venturer	Type 31	Rosyth	2020s
HMS Bulldog	Type 31	Rosyth	2020s
HMS Campbeltown	Type 31	Rosyth	2020s
HMS Formidable	Type 31	Rosyth	2020s
HMS Active	Type 31	Rosyth	2020s
UNKNOWN*	Ukrainian Warship	Rosyth	UNCERTAIN
Unknown	Type 32	Rosyth	2020s
Unknown	Type 32	Rosyth	2030s
Unknown	Type 32	Rosyth	2030s
Unknown	Type 32	Rosyth	2030s
Unknown	Type 32	Rosyth	2030s
Unknown	Type 83**	Glasgow	2030s
Unknown	Type 83	Glasgow	2030s
Unknown	Type 83	Glasgow	2030s
Unknown	Type 83	Glasgow	2030s
Unknown	Type 83	Glasgow	2030s
Unknown	Type 83	Glasgow	2040s

*The status of the plan to order a warship for Ukraine is unknown due to the invasion of the country

**Additionally, the listing of six Type 83 Destroyers presumes the Type 45 Destroyers are replaced on a one for one basis.

Source: UK Defence Journal (DIS0022)

The above list does not cover the whole of the promised 30-year pipeline. If, as the UK Defence Journal notes, fewer than six Type 83 destroyers are ordered the pipeline may not even extend into the 2040s. Professor Trevor Taylor of the Royal United Services Institute, the specialist adviser to this inquiry, noted in his written evidence that

> Scottish yards which provide the core of military shipbuilding capability in the UK have assured work in terms of being on contract only towards the early 2030s. More contracts should follow but only if firms are perceived in Government as performing well in the face of the challenges and risks placed on them.[70]

44. In his foreword to the National Shipbuilding Strategy Refresh, the Defence Secretary says the UK Government "will give industry a much clearer demand signal about what we are trying to achieve with our procurement programmes" and that for the first time the

70 Professor Trevor Taylor, RUSI (DIS0033)

UK Government would release a 30-year pipeline of all Government vessel procurements.[71] However, the Government subsequently clarified, in response to concerns raised by the Defence Select Committee about the surety of the pipeline, that this did not mean work would be guaranteed throughout the 30-year period:

> The NSbS refresh will not provide a guaranteed pipeline of work for UK yards. However, through the 30 Year Cross-Government Shipbuilding Pipeline, there is ample opportunity to create a baseline of volume to encourage industry investment in facilities, infrastructure, innovation and skills. The NSO will seek to maximise the opportunity for UK industry in this pipeline, within the limits of procurement law and international obligations. Whilst noting the Committee's concerns regarding assurance of this pipeline, we consider it will create sufficient opportunities for UK yards to thrive.[72]

45. Some parts of this pipeline have since been confirmed, such as the confirmation that the second batch of Type 26 frigates would be built by BAE at Govan (considered in more detail later in this chapter).[73] However, the pipeline is also subject to change. The Refresh explains that

> The NSO will oversee this pipeline, working with Departments to manage this against UK industrial capacity. As the pipeline spans a 30 year period, it is subject to change and will be agreed through future Spending Reviews. The NSO will update this pipeline at each multi-year Spending Review, however we will be reliant upon industry delivering programmes to cost and time so that we can minimise changes to the pipeline and provide greater certainty.[74]

Some changes to the pipeline have already been seen, such as the decision to cancel the National Flagship, and consequent acceleration of the Multi-Role Ocean Surveillance Ship (MROSS) procurement, in November 2022.[75] In January it was reported that the UK Government had purchased a civilian vessel, the *MV Topaz Tangaroa*, for conversion into the first MROSS at Cammell Laird on Merseyside. This means the first MROSS will not form part of the shipbuilding pipeline for Scotland. The MOD plans to order a second MROSS, to be built from scratch; the site of this work is currently not known.[76]

46. Other elements of the pipeline face questions, including the Type 32 frigates, which under the pipeline suggested above would be built by Babcock at Rosyth from 2028 into the late 2030s. A National Audit Office report in November noted that, in July 2022, Navy Command withdrew its initial plans for Type 32 frigates and Multi-Role Support Ships because of "concerns about unaffordability," and that "the revised costing profile is likely to be significantly higher."[77] The Government said in response to a written question in December 2022 that the Type 32 "remains a key part of the future fleet and is currently in

71 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.8
72 Defence Committee, Fifth Special Report of Session 2021–22, "We're going to need a bigger navy": Government Response to the Committee's Third Report, HC 1160, p. 15
73 HC Deb, 15 November 2022, Col. 16WS [Commons Written Ministerial Statement]
74 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.19
75 HC Deb, 7 November 2022, Col. 17 [Commons Chamber]
76 PQ 80884 [Multi Role Ocean Surveillance Ship: Contracts], 7 November 2022
77 National Audit Office, The Equipment Plan 2022 to 2032, HC 907, 29 November 2022, p. 20

the concept phase. Work continues to ensure the programme is affordable."[78] In January 2023 it was reported that the ships may be dropped from the pipeline as part of the upcoming defence review.[79] Witnesses expressed concern about what the loss of the Type 32 contract would mean for Scottish shipbuilding: Ian Waddell of the Confederation of Shipbuilding and Engineering Unions told the Defence Committee there was a fear that the 'frigate factory' at Rosyth could be lost if the Type 32 contract were to go elsewhere.[80] Reports suggest that the frigates would directly support 1,200 jobs, as well as thousands more in the wider supply chain.[81]

47. In addition to uncertainty around the Type 32 frigate, the selection of Team Resolute as the preferred bidder for the Fleet Solid Support ships contract (as discussed in paragraphs 20–27 above) also means that the FSS vessels (considered later in this chapter) will not be forming part of the drumbeat for Scottish yards.

48. Representatives from the shipbuilding industry told us that having sight of upcoming shipbuilding projects over the coming decades was helpful, but that it was less clear how this translated into a drumbeat of work for shipyards. Ian Waddell of the Confederation of Shipbuilding and Engineering Unions told us:

> My frustration with this is that all the pieces of the jigsaw are on the table in front of us, and it would not take too much to connect them to make a proper picture. We have the 30-year pipeline of work, which we have been campaigning for, for a long time. Having that visibility of all Government-owned or operated vessels is a big step forward. […] The missing link is to take that pipeline of work and turn it into a drumbeat of work for UK yards.[82]

49. In its December 2021 report *"We're going to need a bigger Navy"*, the Defence Select Committee recommended that the Ministry of Defence

> provide Parliament with an annual shipbuilding plan, including the number of ships planned to enter and leave service each year in the next 30 years. We ask that the Senior Responsible Owners for the Type 26, Type 31, Astute and Dreadnought programmes provide the Committee with an annual report on each of their programmes within six months of the publication of this report, and then annually.[83]

In its response the Ministry of Defence said it would "provide a single annual update to the Defence Committee which will include an update on Surface Fleet availability and shipbuilding plans."[84] More than a year on from the publication of the Defence Committee's report, the MOD has not yet published an update, despite indicating in a letter that it would provide one in October 2022.[85]

78 PQ 109433 [Warships: Procurement], 13 December 2022
79 The Times, Fears for Scots shipbuilding as prime minister prepares to scrap £2.5bn frigate order, 15 January 2023
80 Evidence taken before the Defence Select Committee, 17 May 2022, Q30
81 The Times, Fears for Scots shipbuilding as prime minister prepares to scrap £2.5bn frigate order, 15 January 2023
82 Q3
83 Defence Committee, Third Report of Session, "We're going to need a bigger Navy", HC 168, p. 56
84 Defence Committee, Fifth Special Report of Session 2021–22, "We're going to need a bigger Navy": Government Response to the Committee's Third Report, HC1160, p. 14
85 Letter from the Minister of State for Defence Procurement to the Chair of the Defence Select Committee, 13 June 2022

50. We heard differing views over how decisions about how Scotland's constitutional future might affect the shipbuilding pipeline. Professor Keith Hartley told us that "at the moment, the industry's future depends on the Royal Navy. Without the Royal Navy, you would not have an industry."[86] He concluded that "I do not see a Scottish warship building industry in an independent Scotland."[87] John Howie of Babcock, however, indicated that the constitutional debate was not a concern. Discussing recent investment in Babcock's facilities at Rosyth, he said

> the reality is that your business can operate from wherever it needs to. We would not have invested that money in the site at Rosyth if we were expecting to have to make changes to it.[88]

51. **We wish to underline the importance to Scottish shipyards of maintaining a dependable 'drumbeat' of orders to allow them to invest and grow. The days of 'feast and famine' must not return. The creation of the National Shipbuilding Strategy suggests that the UK Government appreciates the importance of this point. However, there remains some uncertainty about the pipeline in the 2030s and 2040s, such as the basis on which the Type 45 destroyers will be replaced. The Scottish shipbuilding industry should not be given cause to doubt that it will have a consistent order book in the future, so long as it continues to deliver on its commitments to its Government customers.**

52. ***The UK Government should provide greater clarity about the work that will fill the whole of the 30-year shipbuilding pipeline into the 2030s and 2040s. It is of course difficult to calculate precise military needs beyond 2050. However, the UK Government should give Scottish shipbuilders the confidence to continue to invest in the future with a clear commitment that it will strategically use its contracts to sustain the national capacity to design and build warships in Scotland, so long as industry continues to deliver on its own contractual commitments.***

53. **Recent developments have introduced uncertainty about some orders in the pipeline and whether it sets out a clear 'drumbeat' of orders needed to sustain Scottish shipyards. The Fleet Solid Support Ships and the National Flagship are two examples. There has been some media speculation about the Type 32s, although the UK Government have stated: "The strategic and long-term investments continue to be on track and will increase the capability and size of the fleet."[89]**

54. ***In its response to this report, and in its annual shipbuilding update to the Defence Select Committee, the UK Government should provide an update on the current status of the military shipbuilding pipeline for Scottish naval yards. In particular, it should confirm whether the MOD still intends to order the Type 32 frigates as set out in the National Shipbuilding Strategy Refresh, and whether the timeline for the Type 32s has changed as a result of concerns about the affordability of the initial plans. The MOD should also set out whether the cancellation of the National Flagship has created a gap in the pipeline, and if so how this gap will be filled.***

86 Q129
87 Q133
88 Q87
89 The Times, Fears for Scots shipbuilding as prime minister prepares to scrap £2.5bn frigate order, 15 January 2023

Type 26 frigate contract

55. During our inquiry the Prime Minister announced the decision that the second batch of Type 26 anti-submarine warfare frigates would be built by BAE in Glasgow.[90] This means that, in addition to the three Type 26 ships already being built, five more vessels will be built on the Clyde. The MOD claims the contract will support 1,700 jobs in Govan and Scotstoun, and that as a result of the contract BAE will invest £1.2 billion in the UK supply chain, supporting a further 2,300 jobs. This investment includes the construction of a new covered shipbuilding hall at Govan, which will allow two frigates to be built simultaneously under cover. Prior to the announcement of the decision, Sir Simon Lister told us progress was already being made towards construction because of the Government's strong commitment to Batch 2; he said the hall would be operational in two years' time and described it as a "very important fillip for our workforce."[91] In addition to the work generated for BAE directly, the MOD says £248 million of work in the manufacturing supply chain will be in Scotland, compared with £749 million in England.[92] Vice Admiral Paul Marshall gave two specific examples of parts of the ships that would be built by the Scottish supply chain: the stabilisers—to be built in Dunfermline—and the mission bay doors—to be built in Edinburgh.[93]

56. Prior to the announcement of the Batch 2 contract, the Defence Secretary informed the House in a Written Ministerial Statement that there would be a 12-month delay to the Batch 1 frigates becoming operational, from October 2027 to October 2028. The cost of the project would therefore grow by 4.2 per cent, or £233 million.[94] The Defence Secretary explained the delay as being

> [d]ue to the impact of covid-19, where the Govan yard was required to shut down for a number of weeks, and challenges typical of those experienced with the first of class ship, including finalising the ship design and timely delivery of key new to service equipment.[95]

He later clarified in evidence to us that the delay had been due to a fault in the test bed used to test the ship's gearbox.[96]

57. As noted in the section above, the Defence Select Committee has recommended that the Ministry of Defence provides an annual shipbuilding update to Parliament, and annual updates on particular programmes including the Type 26 frigate. No such update has yet been provided.[97]

58. **The award of the contract to build five additional Type 26 frigates to BAE Systems is welcome news for Scottish shipbuilding, and importantly continues the shipbuilding 'drumbeat' into the medium-term. We note that, partly as a consequence of global challenges, the first batch of Type 26 vessels has faced delays and increased costs.**

90 HC Deb, 15 November 2022, Col. 16WS [Commons Written Ministerial Statement]
91 Q58
92 Ministry of Defence, Press release: British shipyard awarded £4.2 billion to build Royal Navy ships, 15 November 2022
93 Q167
94 HC Deb, 20 November 2022, Col 23WS [Written Ministerial Statement]
95 HC Deb, 20 November 2022, Col 23WS [Written Ministerial Statement]
96 Q236
97 Defence Committee, Third Report of Session, "We're going to need a bigger Navy", HC 168, p. 56

59. ***Given the ongoing global uncertainties we ask the UK Government to provide annual updates on the construction of the Type 26 vessels to both Houses of Parliament. We note that the Defence Select Committee has made a similar recommendation, but that the Ministry of Defence has not yet provided such an update.***

Fleet Solid Support ships

60. As discussed in Chapter 2, in November 2022 the MOD took the decision to select Team Resolute as the preferred bidder for the Fleet Solid Support ships contract. The MOD did not select a bid from Team UK, a consortium which included BAE Systems and Babcock.

61. Sir Simon Lister of BAE told us that were the FSS vessels not to be built in Scotland it would create a gap in the continuity of orders for workers in the Scottish warship industry, but added that this gap could still be filled by other work:

> I see continuity as really important. Do they have the capacity to absorb that work? Yes. Would the absence of that FSS work prejudice that continuity and the sustainability of that workforce? Yes, but we go looking for other work to plug that gap.[98]

Professor Keith Hartley and Hans Pung of RAND Europe also took the view that the FSS was potentially important to the future workload. Responding to the suggestion that the FSS contract was a "litmus test" for the National Shipbuilding Strategy, Professor Hartley said this was something he would "certainly accept and acknowledge."[99] Mr Pung said he was "not sure I would characterise it as a litmus test" but that alternative options would be needed in the future workload in the absence of the FSS.[100]

62. **The decision to select Team Resolute bid as the preferred bidder for the upcoming order of Fleet Solid Support ships could create a potential gap in the workstream for the Scottish warship industry.**

63. ***In its response, the UK Government should set out how much capacity it expects to now be available in the Scottish warship industry in each of the years between 2025–2032 as a result of the decision to select Team Resolute rather than Team UK as the preferred bidder for the latest order of Fleet Solid Support ships. It should also set out what work could potentially make use of that capacity in the absence of the FSS.***

98 Q87
99 Q156
100 Q157

3 Scottish SMEs and shipbuilding supply chains

MOD spending with SMEs in Scotland

64. In addition to its large shipyards, Scotland is home to a large number of Small and Medium-sized Enterprises (SMEs) which contribute to Scottish shipbuilding and to the wider defence sector. An SME is defined as a company with annual turnover of less than €50 million and fewer than 250 employees.[101]

65. The UK defence sector, and the shipbuilding industry in particular, is dominated by a relatively small number of major companies. This is partly as a result of significant rationalisation and consolidation over the years, the highly specialised nature of its work and its limited customer base. In 2021/22, 42 per cent of total MOD procurement expenditure was with top ten suppliers.[102] The MOD acknowledges this and has a Defence SME Action Plan, with a target that 25 per cent of the department's procurement spend will go directly and indirectly to SMEs in 2022.[103] Vice Admiral Paul Marshall, Director General for Ships at Defence Equipment & Support, told us that at present the proportion stood at 23 per cent, but that MOD was "on track to get there by the end of the financial year."[104]

66. Only a small proportion of MOD spending with SMEs goes to Scottish SMEs, however. During our previous defence inquiry into Scotland's military landscape, the MOD told us that Scottish SMEs accounted for just over £25 million of the MOD's total spend. This is around 2.5 per cent of the approximate £1 billion total spent with SMEs in 2020/21. Scottish SMEs account for 6.2 per cent of all UK SMEs.[105] When we put this to the Defence Secretary he accepted that the 2.5 per cent figure sounded "rather low."[106] Our previous report on the military landscape in Scotland noted that 2.5 per cent is far below the UK average for a region, and below Scotland's population share of the UK. Witnesses we spoke to during that inquiry suggested this was because the MOD was culturally disposed towards working with contractors in the south of England with whom it had existing relationships and was slow to change. This led us to conclude that there was an "engrained hesitancy within the defence sector towards working with Scottish SMEs."[107] The UK Government in its response said it "reject[ed] the Committee's view."[108]

67. The MOD's SME Action Plan acknowledges some of the challenges SMEs face. The Plan notes that "improving access to opportunities for SMEs also requires support from MOD as the end customer"[109] and proposes a number of actions aimed at improving

101 Ministry of Defence, MOD trade, industry and contracts 2022, 29 September 2022
102 Ministry of Defence, MOD trade, industry and contracts 2022, 29 September 2022
103 Ministry of Defence, Policy paper: Opportunity and Innovation: The Defence Small and Medium-sized Enterprise (SME) Action Plan, 27 January 2022
104 Q241
105 Department for Business, Energy and Industrial Strategy, Business population estimates for the UK and regions 2022: statistical release, 6 October 2022
106 Q245
107 Defence in Scotland: military landscape, First Report of Session 2022–23, HC 82, pp. 14–16
108 Defence in Scotland: military landscape: Government Response to the Committee's First Report, Third Special Report of Session 2022–23, HC 674, p. 2
109 Ministry of Defence, Policy paper: Opportunity and Innovation: The Defence Small and Medium-sized Enterprise (SME) Action Plan, 27 January 2022

access for and engagement with SMEs. Neither the Action Plan nor the MOD's response to our previous report propose actions to specifically addresses the under-representation of Scottish SMEs, however. Indeed, the MOD's response to our report is explicit that "improving SME engagement is a nation-wide issue and we are taking a national, rather than regional approach."[110]

68. We heard that geographically targeted measures could be an effective way of involving SMEs in defence supply chains, such as fostering the growth of industry clusters. Hans Pung of RAND Europe, when asked what the UK Government could do to promote SME involvement, suggested that "the MOD working-with-industry group should really take a hard look at the benefit of industry clusters," noting that strong maritime clusters in Scotland already exist. The MOD itself recognises the strengths of shipbuilding clusters around the Clyde in the National Shipbuilding Strategy Refresh, and the UK Government's Maritime 2050 strategy gives a firm commitment to supporting regional maritime clusters, including in Scotland.[111] Kevin Craven, Chief Executive Officer of ADS Group, noted that the MOD has already done some work to involve SMEs in defence supply chains through the regional cluster programme.[112]

69. **We note that the MOD did not agree with the concerns expressed by Scottish SMEs during our Defence in Scotland: military landscape inquiry about the difficulties they experienced engaging with the Ministry. The steps the UK Government outlined in its response to our report are encouraging; however, we believe the Government is missing an opportunity by not doing more to encourage innovation and collaboration by supporting SME clusters around Scotland's shipyards.**

70. ***The Ministry of Defence should, in line with its commitments in the National Shipbuilding Strategy and the UK Government's commitments in Maritime 2050, work specifically to develop shipbuilding clusters in Scotland. In responding to this report, the UK Government should update us on what it has already done to support the growth of the Scottish Maritime Cluster as was promised in the Maritime 2050 strategy in 2019. To support the growth of these clusters the MOD needs to address barriers to Scottish SMEs working with the Ministry.***

71. ***The Ministry of Defence should report back to us at the end of the financial year to confirm whether it met its target of spending 25 per cent of its procurement spend with SMEs. In addition, it should provide an update on what proportion of its spend with SMEs is spent with Scottish SMEs.***

Social value

72. Another tool the MOD uses to attempt to deliver benefits for local economies and communities is through using social value criteria to evaluate contracts. The MOD has a minimum 20 per cent weighting for social value. which will be applied to shipbuilding competitions.[113] We heard that the three areas the MOD will use to evaluate social value are tackling economic inequality, fighting climate change and equal opportunity.[114] Some

110 Defence in Scotland: military landscape: Government Response to the Committee's First Report, Third Special Report of Session 2022–23, HC 674, p. 2

111 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.51; Department for Transport, Maritime 2050: Navigating the Future, 24 January 2019

112 Q24

113 Ministry of Defence (DIS0031)

114 Q28

witnesses suggested different criteria should be used to measure social value: Ian Waddell of the Confederation of Shipbuilding and Engineering Unions argued in favour of the number of UK jobs supported by a bid, the value put into UK supply chains, and the level of tax to be paid in the UK, among others; Richard Powell of the Society of Maritime Industries argued that skills development should be a criterion.[115] In evidence from the MOD it appeared these were used as criteria in at least some contracts. Vice Admiral Paul Marshall told us

> 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.[116]

73. We heard there was some uncertainty over how MOD assessed social value, and how delivery of social value would be measured. Industry representatives told the Defence Committee that social value was "probably the biggest factor in deciding who will win these contracts, and we don't understand what the criteria are."[117] Kevin Craven of ADS Group gave us the example of job creation, asking how the MOD would judge "the difference between a bidder offering 200 new jobs for five years compared with someone who commits to maintaining 150 permanent jobs."[118] Hans Pung of RAND Europe said it was not clear whether only social value delivered in the UK would be counted towards the criteria, and if so how that would be measured.[119] It was also not clear what penalties contractors would face if they did not deliver the social value they had promised.[120] When we asked how delivery of social value was measured, we were told by Vice Admiral Paul Marshall that "we are getting greater detail on where it is working, because we have the governance in place because it is a contractual obligation."[121] He added that apprentice numbers were one measure that was being used.[122]

74. **We heard that including a social value component in shipbuilding contracts can help deliver benefits for the wider economy and in shipbuilding communities. However, there are challenges in measuring how effectively those commitments are being delivered on.**

75. ***The MOD should set out how it evaluates social value in competitions, how it measures the delivery of social value in the contracts it negotiates, and how it holds contractors accountable to ensure they meet those targets. It should also, as contracts progress, track the delivery of social value and challenge contractors where targets are in danger of being missed. We encourage the Scottish Government to provide any assistance it can in measuring and monitoring social value of these contracts to local authority areas and economies.***

115 Qq30–31
116 Q168
117 Evidence taken before the Defence Select Committee, 17 May 2022, Q34
118 Q28
119 Q160
120 Q239
121 Q233
122 Q234

Understanding shipbuilding supply chains

76. Professor Keith Hartley of the University of York told us that there was a limited understanding of shipbuilding supply chains:

> The problem we face in the Scottish shipbuilding industry is that, although we know the major primes like BAE and have a limited amount of information on their supply chains […] These supply chains are very complex, and Governments do not understand them and do not have any knowledge about them. They have knowledge about the first tier suppliers to the primes, but beyond that they really do not understand and have little knowledge.[123]

Knowledge gaps in this area make it more difficult to assess risks. For example, if a prime contractor sources components from a sole supplier, there is a risk of significant disruption if that supplier goes out of business. The MOD has recognised the importance of building more resilient supply chains in its new Defence Supply Chain Strategy, published in November 2022, which places a new emphasis on resilience in response to challenges like the COVID-19 pandemic and the conflict in Ukraine.[124] Improving understanding of supply chains could also bring opportunities. For example, as industry knowledge about regional supply chains grows it could encourage greater collaboration between neighbouring businesses.[125]

77. The Defence Secretary acknowledged that the MOD's understanding of supply chains had been "one of our vulnerabilities" in the past, but said that since then "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."[126]

78. **We heard that historically the Ministry of Defence's understanding of shipbuilding supply chains had been a vulnerability. The Secretary of State told us this had subsequently improved. The new Defence Supply Chain Strategy's emphasis on building resilience in supply chains is welcome, and improving understanding of supply chains further will help to achieve this aim.**

79. ***The Ministry of Defence should publish data on the composition of shipbuilding supply chains, to assist understanding of how the UK shipbuilding industry is structured. This should include regional breakdowns so that the extent of local supply chains and industry clusters can be better understood by Government and industry.***

123 Q138
124 Strategic Command Defence Support, Defence Supply Chain Strategy, 15 November 2022
125 Department for Transport, Maritime 2050: Navigating the Future, 24 January 2019
126 Q236

4 Skills in Scottish shipbuilding

80. A number of contributors to our inquiry highlighted that shipbuilding is an industry that requires a highly trained and specialised workforce.[127] This is particularly true in the warship industry because warships are built to more demanding specifications: they must be built to withstand combat, and they incorporate a number of specialised systems to support military operations. These ships therefore demand an even more highly skilled workforce. Currently much of the UK's knowledge and expertise in this area is based in Scotland.[128]

81. As well as employing large numbers of skilled workers in its shipyards, Scotland also trains highly specialised workers at its higher and further education institutions, many of which go on to work for BAE and Babcock. Among the institutions which provide shipbuilding qualifications in Scotland are City of Glasgow College, Fife College and the University of Strathclyde.

Skills challenges in shipbuilding

82. The Confederation of Shipbuilding and Engineering Unions said workforce recruitment, skills and retention were "the biggest challenge for the industry and the enterprise collectively."[129] City of Glasgow College, one of the biggest trainers of Scottish shipbuilders, agreed that "Scottish shipbuilding cannot succeed without addressing chronic shortages in labour and skills."[130] Witnesses identified several challenges facing the shipbuilding sector in relation to skills. One example was demographic change, and the difficulties that the sector faces in replacing a large generation of employees due to retire in the next five to ten years.[131] Shipbuilders and trade unions told us that the challenge did not lie so much in recruiting younger people and apprentices, but in recruiting and retaining more experienced personnel. Sir Simon Lister of BAE and John Howie of Babcock both identified the recruitment of steelworkers as a particular challenge, noting that these skills were increasingly in demand across many sectors of the economy.[132] Sir Simon suggested one reason it might be difficult to recruit experienced staff may be that "the absence of a national shipbuilding strategy in the last 15 years has led to a quiet atrophy of the intake and the training of the next generation," but added that "in the last five years, progress has begun to accelerate again."[133]

83. A further challenge relates to retaining existing staff. Witnesses told us that uncertainty about future workloads could lead to staff leaving their roles. John Howie of Babcock said: "There are inherent inefficiencies in ordering a batch of ships and then not ordering anything for four, five or six years. It is hard to retain workforces."[134] Richard Powell of the Society of Maritime Industries (SMI) explained that "[i]f you have that uncertainty because you have been four years on a contract or six years on a Type 45 and so on, and there is no prospect of future work, they will go."[135] Professor John Louth

127 Q42; Q95; Q101; Qq148–149
128 Professor Trevor Taylor, RUSI (DIS0033)
129 Q38
130 City of Glasgow College (DIS0035)
131 Q62
132 Q75
133 Q77
134 Q83
135 Q44

suggested a further factor that might make retaining talented staff difficult:

> […] there is a suggestion that many young professionals take advantage of excellent corporate graduate schemes to hone their engineering and scientific skills, then leave at an early opportunity to explore more entrepreneurial leanings rather than being trapped in conventional, non-cutting-edge design, build and maintenance bureaucracies.[136]

He pointed to research showing that around 80 per cent of individuals who leave the defence sector before the normal retirement date do not return to the sector.[137]

84. Witnesses emphasised the importance of a reliable drumbeat of work to help them recruit and retain staff. City of Glasgow College called for "a clearer demand signal to trigger both the public and private sector investment needed to expand the shipbuilding workforce."[138] Hans Pung of RAND Europe agreed that "the more time [employers] have to understand what the future programme looks like, the more their opportunity should be to grow [their workforce] productively."[139]

85. Another challenge identified by contributors related to retraining and lifelong learning for the existing workforce. City of Glasgow College told us "a skilled workforce which is regularly upskilled and reskilled across a lifetime is vital to sustaining a world-class shipbuilding industry in Scotland and the UK." The College drew attention, in particular, to advances in manufacturing technology for which retraining would be required.[140] John Howie gave a practical example of how reskilling could help bring workers from other sectors into shipbuilding:

> As technology evolves, we need to think about where there might be people with sympathetic skillsets who can be easily retrained. For example, as we move from the world of internal combustion engine cars to electric vehicles, the demands for complex vehicle maintenance will decline, so there is a load of people out there with good mechanical and electrical skills who could be easily retrained to work in complex platforms, because the world of work is evolving.[141]

86. Some contributors to our inquiry argued that addressing skills challenges was made more difficult by a lack of data on the skills composition of the UK workforce. Professor Keith Hartley told us that while the UK has "decent data on both direct and indirect employment in the UK's defence industries…when we come to ask questions about the skills, we do not have much published information on the skills composition."[142] He argued that more research was needed to understand what skills were needed in shipbuilding, and therefore what training courses were required.[143] Professor John Louth agreed that the UK's capability gaps were something that "can be identified and known but we generally fail to measure, meaning that private sector workforce competencies, for

136 Professor John Louth (DIS0028)
137 Professor John Louth (DIS0028)
138 City of Glasgow College (DIS0035)
139 Q144
140 City of Glasgow College (DIS0035)
141 Q99
142 Q142
143 Q142

government, remain a strategic vulnerability."[144] One of the tasks of the UK Shipbuilding Skills Taskforce (the work of which we explore in further detail in the next section) is to develop the UK Government's understanding of shipbuilding skills.[145]

87. **We heard evidence that the MOD and the Scottish Government could both have a better understanding of the skills profile of the shipbuilding workforce. This makes workforce planning for a highly advanced sector like military shipbuilding more challenging.**

88. ***Building on the work of the UK Shipbuilding Skills Taskforce, the Ministry of Defence should commission regular research to develop and keep up to date its understanding of the current and future skills profile of the shipbuilding workforce, and the skills needed by the shipbuilding sector. Given education and skills are devolved matters, we equally encourage the Scottish Government to develop its understanding of the skills profile required in the shipbuilding sector. This will help both governments, education sectors and the shipbuilding industry to anticipate and respond to the needs of Scottish yards.***

The UK Shipbuilding Skills Taskforce

89. The National Shipbuilding Strategy Refresh recognised the importance of skills as an issue, and in response announced the establishment of a UK Shipbuilding Skills Taskforce (UKSST). The Taskforce is run by the Department for Education, working with the National Shipbuilding Office.[146] The Taskforce's role is to "build a picture of industry's skills needs and provide solutions to skills shortages, particularly those related to new and emerging technologies."[147] The UKSST has initially been tasked with building a picture of the skills needs and barriers within the shipbuilding industry; the Taskforce will then prepare a Shipbuilding Skills Strategy by 2023, which will include recommendations to help the UK shipbuilding sector meet its skills requirements, before taking steps to begin implementing those recommendations.[148]

90. The National Shipbuilding Strategy Refresh implicitly recognises that the design and building of warships is significantly more complex than for many other vessels, and includes warships as a discrete category when listing types of shipbuilding undertaken in the UK.[149] It does not acknowledge as explicitly that the warship industry demands specific skills and knowledge that other areas of shipbuilding do not.[150] The UK Shipbuilding Skills Taskforce does not have a specific objective to support the development of the skills needed by the warship industry in particular, although warships are part of its remit.[151]

91. The creation of the UKSST was widely welcomed by contributors to our inquiry.[152] John Howie of Babcock described it as "a key example of…the longer term planning that is needed to ensure that we generate the next generation of the workforce, and that we

144 Professor John Louth (DIS0028)
145 Department for Education, Terms of reference for the UK shipbuilding skills taskforce, August 2022; City of Glasgow College (DIS0035)
146 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.66
147 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.66
148 Department for Education, Terms of reference for the UK shipbuilding skills taskforce, August 2022
149 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.13
150 Professor Trevor Taylor, RUSI (DIS0033)
151 Department for Education, Terms of reference for the UK shipbuilding skills taskforce, August 2022
152 Q26; ADS Group Ltd (DIS0024); Society of Maritime Industries (DIS0027)

don't just plug gaps today.[153] City of Glasgow College welcomed the National Shipbuilding Strategy Refresh's "lucid appreciation of the pivotal importance of skills" and the creation of the Taskforce.[154]

92. A complicating factor in the work of the Taskforce is the devolved nature of skills policy in parts of the UK, including in Scotland. Kevin Craven of ADS Group said "the devolved nature of the work involved means that co-ordination and collaboration, working together on these things, is desperately important."[155] The National Shipbuilding Strategy Refresh recognises this and states that the Taskforce "will work jointly with the Devolved Administrations in Scotland, Wales and Northern Ireland to ensure the shipbuilders and the supply chain in all parts of the UK can access the skills they need."[156] The Secretary of State told us that "the Scottish Government and the British Government can work hand in hand on…improving STEM skills, science skills and engineering skills to support shipbuilding. Scottish shipbuilders are represented on the Skills Taskforce, and it is chaired by Captain Dr Paul Little, the Principal and Chief Executive of City of Glasgow College.[157] Engagement with the Scottish Government appears to have already begun: Minister Ivan McKee MSP welcomed the fact that the Scottish Government had already had opportunities to engage with the Taskforce.[158] However, the Taskforce's terms of reference do not include a specific objective to encourage coordination of skills policies across UK jurisdictions.[159]

93. **The creation of the UK Shipbuilding Skills Taskforce shows a welcome recognition of the importance of long-term workforce planning in shipbuilding. This kind of planning is essential if Scottish yards are to have the highly-skilled workers they need to thrive in the future. We look forward to the publication of the Taskforce's report in September 2023.**

94. ***We invite the UK Shipbuilding Taskforce, together with UK Government Ministers, to give oral evidence to the Committee when the UKSST's report is published in autumn 2023, so that its findings can be discussed further and priorities identified to ensure Scottish shipyards have the skills they need.***

95. **We wish to underline that the additional complexity of building warships demands highly specialised skills and knowledge, and that these will need to be updated and refreshed as warship design and manufacture evolves.**

96. ***The UK Shipbuilding Skills Taskforce's report should identify the skills demands of the warship industry specifically, as well as steps that can be taken to meet those needs.***

97. **Skills policies will best support the shipbuilding industry if the UK and Scottish Governments' approaches complement each other. For this to happen, education policymakers in Scotland will need to be able to receive clear signals about the skills needs of the defence sector, and will need routes for working together with the UK Government and other devolved administrations to respond to those needs.**

153 Q95
154 City of Glasgow College (DIS0035)
155 Q26
156 National Shipbuilding Office, National Shipbuilding Strategy Refresh, CP 605, 10 March 2022, p.66
157 HM Government, UK Shipbuilding Skills Taskforce membership confirmed, 24 May 2022
158 Q103
159 Department for Education, Terms of reference for the UK shipbuilding skills taskforce, August 2022

98. ***The UK Shipbuilding Skills Taskforce should have a specific objective to encourage coordination between different jurisdictions in the UK, so that a common effort can be made towards supporting shipbuilding in Scotland and other parts of the UK.***

Formal minutes

Monday 23 January 2023

Members present

Pete Wishart, in the Chair

Deidre Brock

David Duguid

Douglas Ross

Dr Philippa Whitford

Draft Report (*Defence in Scotland: military shipbuilding*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 98 read and agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Monday 6 February at 2.30 p.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 31 January 2022

Professor Trevor Taylor, Director of the Defence, Industries and Society Programme, Royal United Services Institute; **Professor Phillips O'Brien**, Professor of Strategic Studies, University of St Andrews Q1–37

Maria Lyle, Director, Royal Air Force Families Federation; **Lieutenant General (retd) Sir Andrew Gregory KBE CB DL**, Chief Executive, SSAFA, the Armed Forces charity; **Collette Musgrave**, Chief Executive, Army Families Federation; **Sarah Clewes**, Chief Executive Officer, Naval Families Federation Q38–66

Monday 21 February 2022

John Howie MBE, Chief Corporate Affairs Officer, Babcock; **Oliver Waghorn**, Head of Government Relations, BAE Systems; **Stephen McCann**, Managing Director, Optronics, Thales Q67–105

Kevin Craven, Chief Executive Officer, ADS Group; **Dr Hina Khan**, Senior Project Manager, Spire Global UK Limited; **Dr Suzanne Costello**, Chief Operating Officer, MCS Limited; **Jamie Mincher**, Chief Executive Officer, Glenalmond Group Q106–134

Monday 7 March 2022

Councillor Rod Cavanagh, Armed Forces and Veterans Community Champion, Fife Council; **Provost Peter Smaill**, Midlothian Councillor and Her Majesty's Forces Champion, Midlothian Council; **Fergus Murray**, Head of Economic Development, Argyll and Bute Council; **Rhona Gunn**, Depute Chief Exec (Economy, Environment and Finance), Moray Council Q135–178

Keith Brown MSP, Cabinet Secretary for Justice and Veterans, Scottish Government; **Kevin McGowan**, Head of Defence Policy Unit, Scottish Government; **Rory McGregor**, Manufacturing Policy Advisor, Scottish Government Q179–212

Monday 21 March 2022

The Baroness Goldie DL, Minister of State, Ministry of Defence; **Damian Parmenter CBE**, Director General Strategy and International, Ministry of Defence; **Sherin Aminossehe**, Director of Infrastructure, Ministry of Defence; **David Brewer**, Chief Operating Officer, Defence Infrastructure Organisation, Ministry of Defence Q213–256

Monday 13 June 2022

Ian Waddell, General Secretary, Confederation of Shipbuilding and Engineering Unions; **Kevin Craven**, Chief Executive Officer, ADS Group; **Richard Powell OBE**, Chairman of the Maritime Defence and Security Group Council, Society of Maritime Industries Q1–52

Monday 5 September 2022

Sir Simon Lister, Managing Director, BAE Systems Naval Ships; **John Howie MBE**, Chief Corporate Affairs Officer, Babcock; **Ben Carpenter Merritt**, Head of UK Government Relations, Babcock — Q53–128

Ivan McKee MSP, Minister for Business, Trade, Tourism and Enterprise, Scottish Government; **Rory McGregor**, Manufacturing Policy Advisor – Space, Aerospace, Defence & Marine, Scottish Government; **Scott McClelland**, Policy Manager - Space and Aerospace, Defence and Marine, Scottish Government; **Gordon McGuinness**, Director, Industry and Enterprise Networks, Skills Development Scotland — Q100–128

Monday 14 November 2022

Hans Pung, President, RAND Europe; **Professor Keith Hartley**, Emeritus Professor of Economics, University of York — Q129–165

Tuesday 6 December 2022

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; **Rear Admiral Rex Cox**, CEO, National Shipbuilding Office — Q166–257

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

DIS numbers are generated by the evidence processing system and so may not be complete.

1 ADS Group Ltd (DIS0024)

2 ADS Group Ltd (DIS0018)

3 ADS Group Ltd (DIS0002)

4 Argyll and Bute Council (DIS0013)

5 Army Families Federation (DIS0016)

6 BAE Systems (DIS0030)

7 BAE Systems plc (DIS0007)

8 Babcock International (DIS0029)

9 Babcock International Group (DIS0008)

10 Boeing (DIS0019)

11 City of Glasgow College (DIS0035)

12 Fife Council (DIS0009)

13 Forces in Mind Trust (DIS0001)

14 Hartley, Professor Keith (DIS0021)

15 James, Professor (J. C. Wylie Chair of Maritime Strategy, US Naval War College) (DIS0020)

16 Louth, Professor John (DIS0028)

17 Midlothian Council (DIS0011)

18 Ministry of Defence (DIS0034)

19 Ministry of Defence (DIS0031)

20 Ministry of Defence (DIS0032)

21 Ministry of Defence (DIS0014)

22 Mitchell, Mr Hamish (Air Traffic Controller, Employed by NATS Ltd (Commenting as a private individual and not as a NATS spokesperson)) (DIS0006)

23 Patel, Jag (DIS0023)

24 RAF Families Federation (DIS0017)

25 SSAFA, the Armed Forces charity (DIS0012)

26 Scottish Government (DIS0026)

27 Scottish Government (DIS0015)

28 Society of Maritime Industries (DIS0027)

29 Taylor, Professor Trevor (DIS0010)

30 Taylor, Professor Trevor (Director of the Defence, Industries and Society Programme, Royal United Services Institute (RUSI)) (DIS0033)

31 Thales (DIS0005)

32 The Confederation of Shipbuilding and Engineering Unions (CSEU); Unite the Union; GMB Union; and Prospect (DIS0025)

33 UK Defence Journal (DIS0022)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	Defence in Scotland: military landscape	HC 82
2nd	Access to cash in Scotland	HC 80
3rd	Firearms licensing regulations in Scotland	HC 710
1st Special	Immigration and Scotland: Government Response to the Committee's Fourth Report of Session 2017–19	HC 84
2nd Special	Airports in Scotland: Government Response to the Committee's Fifth Report of Session 2021–22	HC 303
3rd Special	Defence in Scotland: military landscape: Government Response to the Committee's First Report	HC 674
4th Special	Access to cash in Scotland: Government Response to the Committee's Second Report	HC 695

Session 2021–22

Number	Title	Reference
1st	Universities and Scotland	HC 54
2nd	Welfare policy in Scotland	HC 55
3rd	The UK Shared Prosperity Fund and Scotland	HC 52
4th	Renewable energy in Scotland	HC 51
5th	Airports in Scotland	HC 601
1st Special	Welfare policy in Scotland: UK and Scottish Government Responses to the Committee's Second Report	HC 790
2nd Special	The UK Shared Prosperity Fund and Scotland: Government Response to the Committee's Third Report	HC 791
3rd Special	Renewable energy in Scotland: Government Response to the Committee's Fourth Report	HC 901
4th Special	Universities and Scotland: Government Response to the Committee's First Report	HC 1252

Session 2019–21

Number	Title	Reference
1st	Coronavirus and Scotland: Interim Report on Intergovernmental Working	HC 314
2nd	Coronavirus and Scotland	HC 895
1st Special	Problem drug use in Scotland: Government Response to the Committee's First Report of Session 2019	HC 698
2nd Special	Coronavirus and Scotland: Government Response to the Committee's First and Second Reports	HC 1118