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Richard Leonard MSP  
Convenor  
Public Audit Committee  
Room T3.60  
The Scottish Parliament  
EDINBURGH  
EH99 1SP

10 July 2025

Dear Mr Leonard

## Strategic Commercial Assets Division

Thank you for your letter of 10 June that followed the Committee meeting of 21 May 2025 covering the work of the Strategic Commercial Assets Division. Please find responses to your requests for further information, set out under your five headings.

### 1) *Funding for Completion of the Glen Rosa*

**“The Committee would be grateful for an update on when it will be advised of the source of funding for this anticipated increase in cost and whether the funds have been approved by Ministers. We expect to be kept updated on developments.”**

The Scottish Government is working with Ferguson Marine and our technical advisers, CMAL, to understand fully the basis of the revised delivery plan and costings for MV Glen Rosa. All significant requests for additional budget for capital projects require detailed scrutiny, including an Accountable Officer assessment, before they can be approved and decisions taken on sources of funding within the overall Scottish Budget. Budget coverage would be identified via budget slippage or viable efficiencies across portfolio spend and via income generation which we receive as a result successful economic investments already made by the Scottish Government and our agencies.

### 2) *SCAD staffing and the use of consultants*

**“We would be grateful if you could provide:**

- **An overview of the division of responsibilities within SCAD, including how staff are allocated across teams or functions.**
- **Clarity on how internal expertise is being deployed and why continued or increased use of external consultants is required, despite this in house expertise.**

- **Further detail on the roles and individual responsibilities of the five SCAD staff specifically assigned to Ferguson Marine Port Glasgow.”**

On 22 May 2024, I provided the Committee with information on the structure of SCAD and its functions. An updated version of this information, reflecting the resourcing position on 30 June 2025, is attached at Annex A.

The Scottish Public Finance Manual (SPFM) requires that we draw on appropriate advice when handling complex commercial matters. At times, SCAD seeks specialist external commercial and legal advice to supplement its own expertise. This may be due to the nature of the project, for instance: where a detailed knowledge and experience of a very specific commercial area would be sought (e.g. mergers and acquisitions expertise is currently being deployed in relation to Glasgow Prestwick Airport) or where we require access to commercial benchmarks not available to government such as guarantee pricing or commercial debt terms (e.g. external consultants are used to model credit default scenarios for the Lochaber guarantee and price parent company guarantees offered to clients of Ferguson Marine).

In order to secure appropriate external advice at best value, the division manages a Commercial Advisory Framework. This framework is open to all policy areas in the Scottish Government if they require independent commercial or financial due diligence. In addition, there are also other mechanisms available to appoint commercial specialists such as the use of frameworks operated by the Crown Commercial Service. SCAD uses these frameworks to support a range of policy functions across the Scottish Government covering a diverse set of commercial issues.

The team in SCAD that supports the Government’s shareholding in Ferguson Marine is responsible for the sponsorship of the business as a public body (e.g. governance matters relating to the Framework Agreement and appointments to the Board), for supporting the delivery of the MV Glen Rosa (e.g. by making payments for work completed against the shipbuilding contract) and for working with the senior executives and the Board to develop and implement the yard’s business plan and investment proposals. The size of the Ferguson team reflects the significance of the business, the large scale of the Government’s financial commitment to the vessel delivery programme, and the sponsorship team’s support to the Board in developing its business plan to ensure a sustainable future for the shipyard.

### 3) *Horizon scanning*

**“Please can you provide details of how horizon scanning is currently carried out on a sector-by-sector basis and how this work feeds into SCAD’s wider strategic oversight and decision-making. Specifically, the Committee would be interested to know whether there are any standard frameworks or tools that guide this activity and how these help to identify and respond to potential risks before they emerge?”**

The Insights and Assurance Unit of SCAD has the capability to analyse sectoral and company specific data drawing on a range of Scottish Government and subscription based external sources. These data sources include: (a) official statistics produced by the Office of the Chief Economic Advisor and the UK’s Office for National Statistics, (b) company financial information from a data analytics provider to gauge the propensity for financial distress and insolvencies and (c) information from enterprise agency account managers at SE, HIE and SOSE.

SCAD will typically collate sectoral information as part of its due diligence processes when a company intervention or divestment decision is being assessed. Alternatively, sectoral analysis is conducted when prompted by emerging trends or in response to specific requests from officials with policy responsibility for the sector concerned.

SCAD works closely with various policy teams across the Scottish Government and the enterprise agencies to help inform potential commercial interventions. In instances where major investment or divestment decisions are contemplated, market analysis may be performed by an external commercial advisor typically as part of an economic impact assessment.

Your letter referenced an evaluation report into the Government's management of the BiFab intervention and a recommendation that SG should formalise its monitoring of companies of strategic importance in Scotland. As discussed at the Committee, I am content that through the account management approach led by our enterprise agencies and the sector-by-sector approach to monitoring led by SCAD, we are targeting our analytical capacity in the most effective way.

#### 4) *Lochaber/GFG Alliance*

**“While the Committee notes previous statements by the Scottish Government that there is no financial risk to public funds in relation to the Lochaber guarantee, we are not persuaded that this fully reflects the underlying exposure. We would therefore welcome clarity on:**

- **How the Scottish Government assesses and monitors risk in this particular case?**
- **What assurance can be provided that there is genuinely no current or potential risk to public funds?**
- **Whether any changes have been made to the risk profile, operational performance, or corporate structure of GFG Alliance in Scotland that would affect this assessment?”**

The Scottish Government acknowledges there is a risk attached to the Lochaber guarantee and the contingent liability is reported to parliament via the Finance and Public Administration Committee. Should the Government require to make any payment, it is thereafter able to seek recovery of the full amount of any such payment from other members of the GFG Alliance by virtue of a series of cross-guarantees. The Government also benefits from a comprehensive security package consisting of the smelter, the hydro power station, extensive land holdings and a series of other protections. Therefore, in the event that the guarantee is called we are confident the Government would be well positioned to seek to recover the full amount it may be required to pay.

The Lochaber guarantee has not been called so is not a liability on the Scottish Government's balance sheet, but a significant provision has been made and reported to parliament via the Consolidated Accounts. The Government's potential exposure to default payments is calculated using the requirements of IFRS 9 for Financial Guarantee Contracts. The provision was revalued at £130m on 31 March 2024.

The provision in the Consolidated Accounts is not a forecast of expected outcomes. It has been determined on a cautious basis – essentially ‘as if’ a default has occurred, and asset recoveries are assumed to be at the low end of the possible spectrum. The provision is

informed by a technical assessment of a range of credit risk scenarios carried out by independent advisers, Deloitte. The Auditor General has stated that the Scottish Government's approach to setting the level of provision against the potential exposure through the guarantee is reasonable and we shared all the relevant underlying analysis with Audit Scotland.

We take a robust approach to guarantee management and monitoring and, as part of this, seek regular updates on the global restructuring and refinancing activity of the GFG Alliance. Officials attend regular meetings with GFG Alliance executives at both group and local level and are supported in this work by external commercial advisors. This allows us to monitor risks and, in particular, to identify any challenges that lie ahead for the Lochaber business. The Scottish Government continues to earn the expected income in the form of guarantee fee payments from the GFG Alliance and there has been no use of public funds arising from the guarantee.

#### *5) Transparency and access to information*

**“The Committee would welcome an update on when these commitments [of the SCAD transparency review] are expected to be implemented, and how they will lead to more consistent and meaningful access to unredacted information in the future.”**

Work is progressing to implement all the actions in the SCAD Transparency Review delivered to the Committee on 6 April across the four workstreams: (i) commercial advice reports, (ii) FOI, (iii) non-disclosure agreements and (iv) shareholder authorisations.

New web content for SCAD hosted on the gov.scot website is central to the review's implementation as it will become the main place for pro-active publication of public records in relation to the division's work. At present information on the assets managed by SCAD is held on different parts of the Scottish Government's website. The content and structure of the new web content is progressing and is scheduled for launch in September.

The web page will include new registers relating to: shareholder approvals; FOI responses; and non-disclosure agreements. This will bring enhanced transparency to how the assets are being managed.

The Business Investment Framework section of the Scottish Public Finance Manual is being updated with new guidance on when and how the Scottish Parliament should be informed about directions given by Scottish Ministers to the board of a business for which they are the primary shareholders.

The Transparency Review also recommended that we create an Assurance Panel to oversee decisions on materials that will be published or withheld on grounds of commercial sensitivity. The terms of reference of the panel are under development. The chair will be a senior civil servant recruited from outwith SCAD to enable the panel to operate at a distance from the original decision-makers and independently of those involved directly in the commissioning of the external advice in question. Once approved by Ministers, the terms of reference of the Assurance Panel will be made available on the SCAD web pages.

We are already making improvements to contract management in line with the transparency review's recommendation to identify commercially sensitive information at the outset of contractual relationships. This step will help to minimise the risk of ambiguity over the status of information related to and produced by external consultants.

**The Committee asked, “Whether the consultancy firm FMI was required, under the terms of its contract with the Scottish Government, to disclose other clients, in particular, other shipyards that may be in competition with Ferguson Marine, in order to identify and manage any potential conflicts of interest.”**

FMI was not required to disclose other clients that may be in competition with Ferguson Marine. The Scottish Government contracted First Marine International Ltd using our model contract terms and conditions in accordance with the Public Contracts (Scotland) Regulations 2015. It is standard professional practice for consultancies and suppliers of specialist advice to provide advisory services in their area of specialist expertise to multiple operators. There is no requirement in the Scottish Government model terms and conditions for suppliers of specialist expertise to provide a list of previous or current clients. The management of risk of disclosure of commercially sensitive information, including conflict of interest, is managed through the relevant contractual terms and conditions.

*Conclusion*

I trust the information provided in this letter is useful to you and we will revert to the Committee after the Parliament’s summer recess to provide further detailed information on the implementation of the Transparency Review’s recommendations.

**GREGOR IRWIN**

Director-General Economy  
Scottish Government

## **Annex A: The Strategic Commercial Assets Division**

The Strategic Commercial Assets Division (SCAD) is part of the Directorate for Economic Development within the DG Economy area of the Scottish Government.

SCAD is responsible for:

- ensuring the effective governance and stewardship of a portfolio of commercial assets (Glasgow Prestwick Airport, Ferguson Marine, Lochaber Guarantee and BiFab) where the Scottish Government has a financial stake and/or provides a sponsorship
- providing a co-ordinated response to companies in distress in close collaboration with Scotland's enterprise agencies (SE, HIE and SoSE)
- working with cross-portfolio teams to support ministerial engagement with other strategic businesses.

The Division comprises four units (see organogram below, representing the staffing hierarchy as at 30 June 2025) which collectively contribute to the common aims of:

- maximising the public good throughout the interventions' lifespans to ensure business continuity, maintaining jobs and support for supply chains and communities across Scotland
- prioritising value for money and public benefits derived for communities to drive the assessment of optimal interventions
- maintaining sound monitoring and assurance processes to underpin the ability to demonstrate outcomes and public benefits delivered as the assets mature
- embedding continuous improvement through business processes in the management of assets with a standard of excellence promoted at all levels.

### **1) Business Briefings Unit**

- maintains strong relationships with Enterprise Agencies (Highlands & Islands Enterprise, Scottish Enterprise, South of Scotland Enterprise)
- offers practical support to businesses and supporting company resilience
- provides support to the lead minister on the Scottish Government business resilience response through ministerial briefings, advice, and organisational activities
- maximises ministerial engagements to highlight Scottish Government policies.

### **2) Business Insights and Assurance Unit**

- identifies business resilience issues using market intelligence and insights
- advises on legal and commercial due diligence drawing on the input of experts and engagement with Audit Scotland on the approach to interventions to ensure high standards of assurance in asset management and assessments of risk
- leads on policy development, including the transparency review, to ensure consistency of approach and high levels of assurance and oversight related to investment, management and divestment of commercial assets
- provides assurance across new and historic strategic commercial interventions
- implements measures to maximise the public good and return on investment from our interventions whilst protecting jobs in communities across Scotland.
- develops commercial interventions for major resilience cases.

### **3) Operations and Asset Management Unit**

- operates a response model to advise and brief ministers on the Government response to a situation where there is a risk of financial failure of a strategic commercial asset
- develops and delivers the resilience model toolkit to support surge capacity when required

- manages the Commercial Advisors Framework contract across the division to ensure SCAD efficiently procures the services of commercial advisors across various disciplines
- manages the Scottish Government's legacy interests in BiFab and the administration process
- leads the management of Glasgow Prestwick Airport and future strategy for the business
- manages Scottish Government's interests in the GFG Alliance's footprint in Scotland and the guarantee provided in relation to the Lochaber Smelter and hydro plant.

#### **4) Ferguson Marine Unit**

- maintains good relationships with key stakeholders to foster a collaborative approach to deliver ministerial objectives
- supports Ferguson Marine's senior management team in navigating the requirements of the public sector and Scottish Government ownership
- leads the Ferguson Marine governance programme which aims to provide assurance and oversight of delivery of Hull 802
- ensures lessons learned from the management of this asset is transferred through learning to other divisional teams leading on asset management.
- works across the Scottish Government and the wider public sector to maximise shareholder and government support and opportunities available to Ferguson Marine
- manages the options appraisal and implementation phase for the divestment/transition of Scottish Government commercial assets into their longer-term steady state
- leads the Ferguson Marine futures project, which aims to secure a sustainable future for the shipyard.

Across the division, Programme Management Office (PMO) provides business support function and project and programme management building a consistent approach to interventions with controlled reporting and governance arrangements. It acts as secretariat for the Strategic Assets Review Group which provides an additional layer of oversight and scrutiny of our investments.

The Division is supported in its work by two dedicated Finance Business Partners.

