OFFICIAL REPORT
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Public Audit Committee

Thursday 27 April 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 27 April 2023

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PUBLIC AUDIT COMMITTEE
12th Meeting 2023, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Sharon Dowey (South Scotland) (Con)

COMMITTEE MEMBERS

Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Craig Hoy (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)
Joanne Brown (Grant Thornton UK LLP)
Bill Kidd (Glasgow Anniesland) (SNP) (Committee Substitute)
Mark Taylor (Audit Scotland)

CLERK TO THE COMMITTEE

Lynn Russell

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 27 April 2023

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the 12th meeting in 2023 of the Public Audit Committee. The first item on our agenda is a decision on whether the committee will take agenda items 3, 4, and 5 in private. Do we all agree to take those items in private?

Members *indicated agreement.*

The Convener: We have received apologies from Colin Beattie. I welcome Bill Kidd to the committee.

Section 22 Report: "The 2021/22 audit of Ferguson Marine Port Glasgow (Holdings) Limited"

09:00

The Convener: Our principal item of business is consideration of the 2021-22 audit of Ferguson Marine Port Glasgow (Holdings) Ltd. I am pleased to welcome our witnesses. The Auditor General, Stephen Boyle, is joined by Mark Taylor, who is an audit director at Audit Scotland, and Joanne Brown, who is a partner at Grant Thornton UK LLP.

We have quite a number of questions to put to our witnesses this morning. Before we get to those, I ask the Auditor General to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): I present this report on the 2021-22 audit of Ferguson Marine Port Glasgow (Holdings) Ltd under section 22 of the Public Finance and Accountability (Scotland) Act 2000.

The Scottish Government brought the Ferguson Marine shipyard into public ownership in 2019. It is now a limited company that is wholly owned by the Scottish Government, and it is a non-departmental public body. As the committee well knows, Ferguson Marine is contracted to build two ferry vessels: the Glen Sannox—also known as vessel 801—and vessel 802, with the Scottish Government funding those costs under contract.

The auditors issued an unqualified audit opinion on Ferguson Marine's 2021-22 financial statements. In doing so, they highlighted risks and uncertainties as to the financial viability of FMPG within their audit certificate. That judgment from the auditors draws on the management's own assessment of its ability to operate as a going concern for the following 12 months.

At the time of reporting, Ferguson Marine's estimates suggested that around £9.5 million of additional funding was required beyond the amount that was already approved by the Parliament. That would bring the total direct vessel-related costs to £293 million. That figure excludes other funding that the Scottish Government has provided to the yard.

In December 2022, the Government issued what is known as a "letter of comfort" to the FMPG board to provide assurances that it intended to financially support FMPG for at least a further 12 months from February 2023. The former Deputy First Minister has since informed the Parliament that the Scottish Government's full assessment and due diligence of costs is due to conclude shortly. The chief executive has confirmed that

FMPG aims to work within existing cost estimates. It remains critical that the Scottish Government and FMPG work together to establish and clarify funding and plans for both the vessels and the yard as quickly as possible. That will help to provide more certainty to both the workforce and island communities.

My report highlights that six senior managers at the yard were paid performance bonuses of £87,000. It is, in my view, unacceptable that those payments were made without proper governance and oversight arrangements. On 16 March, the former Deputy First Minister assured the Parliament that new processes have been put in place, with the aim of ensuring that that does not happen again.

I will, of course, continue to monitor Ferguson Marine's progress during 2022-23 and report further in public as appropriate.

As the convener has mentioned, I am joined by Jo Brown, who is the appointed external auditor from Grant Thornton, and Mark Taylor, who is an audit director with a great deal of familiarity with the workings of ferries in Scotland from an audit perspective. We look forward to answering the committee's questions between the three of us.

The Convener: Thank you very much. I will begin by going back to what has been a recurring theme in relation to the delivery of those two vessels, which is cost overruns. In particular, I want to ask about paragraph 13 of the report, in which you draw attention to the fact that, during October to mid-December 2022, Ferguson Marine Port Glasgow made expenditure commitments of between £10 million and £15 million more than the Scottish Government had allocated. I guess the obvious question is: how could that be? Was it appropriate, and where was the sponsorship team of the Scottish Government during that?

Stephen Boyle: The convener is right to draw attention to that serious issue. I will come back in a moment and address the specifics of the point, but it reflects a wider concern about the ambiguity of the arrangements in the yard in relation to projected future spending and the Scottish Government's oversight of that.

Although the situation was resolved with a subsequent letter of comfort from the Scottish Government, it points to concerns about in-year spending. There is also the question of what would have happened had the Scottish Government not provided the letter of comfort and what that might have meant for the delivery of the project.

The convener asked about the role of the sponsorship team. Jo Brown can come in and say a bit more about that in a moment, if she wishes, but I note that the question speaks to wider concerns that are highlighted in the section 22 report and, very clearly, in Grant Thornton's annual audit report. Those wider concerns relate to the fact that there remains ambiguity about how oversight works in the day-to-day sponsorship arrangements, and they relate to the lack of clarity in the framework document that sets out how the relationship between FMPG and the Scottish Government operates. That goes to the heart of the financial transactions that exist, but it also extends into other matters that include governance and pay arrangements.

I am keen to say more about those matters, convener, but I will stop and bring in Jo, if she wishes to elaborate.

Joanne Brown (Grant Thornton UK LLP): In relation to that time period, there were on-going discussions between FMPG and the Scottish Government sponsor team. From what we understand, there were a number of verbal agreements, but the FMPG board was looking for those assurances more formally in writing, which—as the Auditor General has said—came in December through the letter of comfort.

At that particular point in time, the accountable officer of FMPG sought advice from the Scottish Government around their role and remit as accountable officer and the nature of the commitments that FMPG had incurred. We understand that there was a timing issue around the budget announcement in the December period, which set out the future funding for FMPG. However, the sponsor team was aware. The issue seemed to be more around the hard commitment from the sponsor team that the funding would be provided to FMPG, which created risk and uncertainty for FMPG in that time period.

The Convener: Auditor General, you spoke about ambiguity and the framework agreement not being as clear as it might have been. How should the sponsorship team's relationship with an NDPB such as this be, when presumably not insubstantial amounts of public money—£10 to £15 million—need to be committed? Does it come as a letter of comfort at the end of the process or should there not be some kind of prior sign-off by the sponsorship team or the minister or whoever to allow the expenditure to be committed? We have heard that before in other circumstances around the contract.

Stephen Boyle: In general, I would characterise that relationship by saying that it should be one of respective understanding of risk and opportunity. I know that the committee has for many years had a keen interest in sponsorship arrangements and how they operate across the Scottish Government and its bodies. Where there are higher-risk entities—it is reasonable to say that Ferguson Marine Port Glasgow would be categorised as such—that would involve a higher level of day-today engagement from a sponsor team. It is probably not for me to specify what that would mean for the sign-off of individual transactions or spending.

We include that in our report because it speaks to an example of our surprise that spending beyond budget was committed and that it resulted in a letter of comfort thereafter. If that was the anticipated spend, we would have thought that it would have been managed in advance rather than retrospectively.

Our report has not covered in detail the totality of sponsorship arrangements as it relates to FMPG and the Scottish Government, but we and Grant Thornton's annual report draw attention to the need for additional clarity around how that relationship will operate, for the framework document to be clearer, for clarity around governance arrangements and, as a final point that is particularly relevant in these circumstances, for clarity around value for money. The Scottish Government is asking FMPG to be clear about the value for money that will be derived from the use of public funds in its future spending.

As we know from the conversations that I have had with the committee in the past few weeks, value for money is a rounded assessment, but the criteria for that assessment need to be defined and they have not been defined yet. All that work needs to be done quickly.

The Convener: For the avoidance of doubt, the enterprise must comply with the Scottish public finance manual guidance, so there should be openness and transparency, there should be value for money and there should be an internal audit function, for example. My reading of the external auditor's report is that FMPG did not have an internal audit function at the time of reporting. Is that still the case?

Stephen Boyle: I will bring in Joanne Brown to update you on that, but I will say a word about the Scottish public finance manual first. At the risk of repeating myself, that is another example of the ambiguity that exists in relation to Ferguson Marine Port Glasgow (Holdings) Ltd. It is a non-departmental public body, but it is also a company limited by guarantee that is registered with Companies House. Those factors have to co-exist and, in some circumstances, a judgment will have to be made because there are competing criteria around those registrations and some will involve openness and transparency. However, FMPG is a commercial entity that will engage in commercial transactions, so it will not always be in its interests to be entirely open and transparent.

What we do not yet have from FMPG and the Scottish Government is clarity about how FMPG can run its business, and FMPG absolutely deserves to have clarity in its framework document about that. The absence of that clarity will mean that the factors that I have talked about will rub up against each other, they will compete and they might result in delays. That needs to be resolved quickly.

On the point about the lack of an internal audit function, as you would expect me to say, convener, an effective internal audit function is an essential component of an organisation's control environment and a key management tool to support the management of risk, especially for an organisation such as Ferguson Marine Port Glasgow. We understand that progress is being made on that, and there are references in the annual report and accounts that disclose the circumstances around it. The absence of an internal audit function would be a deficiency in the management's ability to run the yard to best effect.

I will stop there. Joanne Brown will want to come in with her judgment of where things are.

Joanne Brown: The framework document and the letter that was issued to the accountable officer highlight the fact that FMPG is required to comply with the SPFM. FMPG is aware of that, and it has spent time looking at what part of those arrangements it is deficient in and what it would need to happen to put them in place to allow full compliance. It has disclosed that in the governance statement in the accounts.

We raised the issue of internal audit in our prior year audit as well as in the current audit report. The Public Audit Committee has considered the issue and looked into the possibility of internal audit, and I know that FMPG has explored a number of options around that.

One of the challenges facing FMPG, and an area on which it has focused, is the delivery of 801 and 802.

There is obviously a cost associated with internal audit, and FMPG is speaking to the sponsor team about that. In part, it links to the needs that we highlighted in our external audit report and in the section 22 report about the wider business plan and the yard's future direction. It would also shape the investment in internal audit for Ferguson Marine.

The establishment of internal audit is in process. FMPG has disclosed that it does not currently have an internal audit function and is speaking to the Scottish Government about how it would be funded.

The Convener: Auditor General, you couched the situation in terms of there being a tension between the fact that Ferguson Marine is a company limited by guarantee and that some of its governance is dictated by the Scottish public finance manual. There was a report in a national newspaper today about the commissioning of some consultancy work to scope what needs to be put in place for the company to thrive in the future. The article suggests that the organisation that is carrying out that work—First Marine International—requested a non-disclosure agreement on its report. Initially, the Scottish Government said that there was no NDA, but it has now accepted that one is in place, and there is talk about commercial sensitivity.

We all understand that there will be some commercial sensitivity, but there is also a public interest, and there must be a way through that that would allow as much as possible of the report to be in the public domain and subject to scrutiny. Are you aware of that and do you have any reflections on it?

Stephen Boyle: No, we were not aware of the specifics. We have not seen the report and only became aware of it when the article was brought to our attention. As I understand it, the transactions will have been in the financial year that has just completed—the 2022-23 audit—so the external auditors will consider that as part of their audit.

To step back to the wider point, as we have discussed already, there is something of a tension between the requirements that the Scottish public finance manual puts on Ferguson Marine Port Glasgow as a non-departmental public body and FMPG's being a company operating in a commercially competitive environment. I repeat that the Government and FMPG need to come to a shared understanding of what that means. As you would expect me to say, convener, that does not override the need for openness and transparency, given the very strong parliamentary and public interest in the work of the yard, the delivery of the vessels and the yard's future. Indeed, part of the reason for our section 22 report is the drive to provide that shared understanding and clarity as quickly as possible.

As it is framed in the article, the intent behind the consultancy work is to do with future options. I do not know the status of that, but it sounds as though there are parallels with the Scottish Government's assessment of the future of the yard. A report is awaited from the Scottish Government. Two pieces of future consideration are mentioned and sometimes mixed up. One is about the due diligence of costs that took place at the end of last year, and the other is the wider report that the Scottish Government is currently working on. We await its publication, but I understand that it will set out what the Government views as the future provision options. That needs to happen quickly so that there is clarity for people who work at Ferguson Marine Port Glasgow and for Scotland's island communities.

The Convener: We might return to some of those questions in the course of the next hour.

Sharon Dowey has a series of questions to put.

Sharon Dowey (South Scotland) (Con): Good morning, Auditor General. The Scottish Government issued a letter of comfort to FMPG providing assurances that it would be supported financially

"for at least 12 months from February 2023".

Does that mean that FMPG can continue to make expenditure commitments, such as the ones made between October and December 2022, beyond its allocated budget for the year?

Stephen Boyle: I will start and will bring in Mark Taylor in a moment. He can say a bit more about the Scottish Government's role in supporting the delivery of the vessels.

At a high level, the contract for the delivery of the vessels now exists between the Scottish Government and Ferguson Marine Port Glasgow. As I recall, in evidence that it took on the section 23 report, the committee has previously explored with the Scottish Government the nature of that commitment and the extent to which the Government managed and evaluated it. However, it is our understanding that the commitment remains and is linked to timescales. Therefore, if milestone dates are met, the contract continues and amounts will be paid. If dates slip, as they have done, there is an opportunity to consider a break in the contract. If that is not exercised within a, I think, 14-day period, it is assumed that the contract continues and will be funded.

We draw attention to that in today's report because it is critical as part of an auditor's assessment of going concern arrangements that the business can continue to exist for 12 months after the date of the signing of the annual report and accounts. Management's assessment was that it could, but it also drew attention based on doubts; not based on doubts, I should say, but just following a review of cash flow—to the fact that the provision of the letter of comfort and the assumptions in the draft budget were the factors that allowed them to make that assessment. However, quite rightly, in its audit certificate, Grant Thornton draws attention to those judgments. I will pause there, and Mark Taylor can say a bit more about the Scottish Government's role.

Mark Taylor (Audit Scotland): Thank you, Auditor General. The starting point for me relates to recognition that the Scottish Government, in committing any expenditure, is subject to parliamentary approval of its budgets and that there is a parliamentary approval process around those budgets. What the Government is able to offer and give a degree of comfort on to public bodies, their boards and auditors can often be quite nuanced, given the requirement to have that approval for spending authority from Parliament. The specifics around the letter of comfort include caveats that broadly say that it is subject to approval of budgets by Parliament and, importantly, any further due diligence that might be required by the Scottish Government itself before it signs those costs off.

The idea is that the Government has signed costs off up to a certain level but that, if Ferguson Marine says that it is going to cost more, although there is a commitment to provide cover for that, it is subject to the Government looking in detail at the amounts that have been quoted to make sure that they are robust, for want of a better term. Therefore, there are clear caveats, and those caveats were also taken into account by the board of Ferguson Marine and Jo Brown and Grant Thornton in their work as part of that wider package that the Auditor General talks about.

More generally, there is the question of whether Ferguson Marine can spend beyond its budget if it has to. What we would say about that is that, in the same way as we covered the existence of the £15 million, a better position is to have clarity about what the expectation is and what the budget cover is for that. Then, if it was to continue to spend in that way, the letter of comfort gives a degree of assurance that those costs will be met but subject to those caveats.

Sharon Dowey: Therefore, if Ferguson Marine spends more money, will that need to come back to Parliament? You say that it must hit milestone targets.

Mark Taylor: I would articulate the answer to that by saying that, as part of future budgets and future budget revisions, it would be part of that package of the wider budget that would be approved by Parliament, because Parliament generally will not approve individual budget elements. Therefore, it would be part of the overall budget approval. One of the reasons that we touched on earlier for the gap between expenditure commitments being entered into and cover by budgets was the timing for that parliamentary approval and the process around it. Therefore, we would not expect to see that specific spending line being approved in isolation, but it would be part of the wider budget approval or adjustments.

Sharon Dowey: You state that FMPG funding requests are subject to due diligence by the Scottish Government. Can you provide more detail about the process that is in place for that work to happen?

Mark Taylor: I will speak broadly about what due diligence is. In essence, due diligence is a broad church, and it is generally concerned with confirming the facts of the matter before a decision is made in relation to financial decisions. Broadly, it is about an assessment of the robustness of the case for the amount of money that is being asked for, the basis for that and how that has been assessed. Quite often, as was the case here, that involves bringing in independent experts to look at the basis for that—in essence, to get into the nuts and bolts of the evidence for that and to provide views on it.

We set out in our report some of the outcomes from that due diligence review, and some of the uncertainties and issues that exist, in paragraph 12 of the report. What the paragraph highlights—and it is a broader point in the report—is that these costs are uncertain. Some things might, we hope, reduce the costs, if efficiencies are identified, reworks are minimised and so on; equally, inflation and some of the uncertainties and contingencies might mean that costs move around. The results are highlighted in paragraph 12.

Sharon Dowey: The report highlights that there could be a future funding requirement of around £9.5 million, based on FMPG's estimate of final costs. The report also highlights that the consultant who was commissioned to review FMPG's financial forecasts raised some concerns, including about the estimate of contingency being too low. On that basis, how realistic do you consider the future funding requirement of £9.5 million to be?

Stephen Boyle: It is hard to be definitive about that at the moment. It is in effect the best current estimate in the judgment of the Scottish Government and the yard.

As Mark Taylor has said, the outcome of the due diligence exercise suggests that FMPG needs to build more contingency into the estimates, which seems pretty sensible given what we have already seen of the project, which is that it has continued to cost more and take longer than expected. It is about building in larger contingencies together with the assessment of the risks that remain. The last point draws attention to some of the risks for delivery, to which the consultant's note refers, around supply-chain pressures, the wider circumstances in the construction sector, building inflation and what that might mean for future cost estimates and delivery timescales.

That amount is probably the best estimate that was available, but it would be folly to suggest that it is the reliable, final number that will be spent to deliver the vessels at this stage. It needs close, careful management and regular engagement between FMPG and the Scottish Government, together with approval requests at the right point to Parliament through the chief executive and his update on progress to the Net Zero, Energy and Transport Committee.

Sharon Dowey: This is my last question. To what extent is the Scottish Government preparing for a future funding requirement, recognising that financial assurances have only been provided until February 2024?

Stephen Boyle: That is subject to on-going review and anticipation. I draw the committee's attention to exhibit 1 of the report, where we set out the balance of spend to date and, as you have mentioned, deputy convener, a budget of £57.6 million in the 2023-24 budget. At the risk of saying this again, I do not think it possible to say with certainty that that is it, because this project has been subject to regular review of costs, additional costs and extended timescales.

I am sure that the committee will have clearly heard the former Deputy First Minister advise Parliament on the changes to the timescales for the delivery of MV Glen Sannox and the anticipated longer timescale for the delivery of vessel 802. That is the most up-to-date position. We also understand and repeat that the project requires clarity through Parliament and the public, which will come through close, regular management of costs and anticipated timescales.

Sharon Dowey: The letter of comfort was given in 2023 and it covers FMPG until 2024. The latest update that we have is that 801, or MV Glen Sannox, would be finished by the summer or the end of 2023 at the very latest. The latest update on 802 is that it would be finished by the summer or the end of 2024 at the latest, which is actually outwith the letter of comfort.

Looking at the milestone payments, it seems to me that FMPG has already slipped on timescales. We have already said that we cannot be definitive about whether that cost will be accurate. We have asked officials before about whether this is a blank cheque until the boats are completed. Is it, in effect, a blank cheque?

09:30

Stephen Boyle: I will start with the dates, if I may. For 802, there is an expectation of completion in autumn 2024, with a "backstop" date of December 2024. That is what was in the former Deputy First Minister's statement. Sharon Dowey is therefore right that, in terms of timescales and public expenditure, that will be into the 2024-25 budget, which of course has not been considered by Parliament. That will be a matter for parliamentary consideration in due course. It is indicative of the fact that close management of that spending continues to be required.

Sharon Dowey, and the committee, have asked the question as to whether there is an open-ended commitment. As I mentioned a couple of minutes ago, contractually, that is not quite the case. Mark Taylor might want to say a wee bit more about that. There are potential breaks in the contract as it relates to not delivering the vessels in accordance with the timescales; it is the timescales that matter. However, it is accepted that the contract continues, and continues to be funded, unless the funding party—that is, the Government—says otherwise, should those delivery timescales not be met. There are therefore opportunities to review timescales and future commitments still to come, but those are the most up-to-date dates that we are aware of.

Mark Taylor: The length of time that is in the letter of comfort is 12 months from that date largely due to technical reasons. The need for a letter of comfort is established by the board. It primarily has a requirement to consider whether it will be a going concern for 12 months from the date of signing those accounts. Therefore, in providing a letter of comfort, the Government would have reference to that. That is why the length of time is 12 months and not a different period that is related to the boats. It is for technical reasons.

On the broader question of the extent to which there is a blank cheque or an open-ended commitment, again, I would refer to the answers around parliamentary approval and some of the caveats around due diligence. The Government has said that it is committed to seeing through these boats, but that is not the same as advance approval or the formality that is required around approval of spending authorities as the boats progress.

There is an opportunity for the Government to keep that under review. As the Auditor General said, under the terms of the contract, there are opportunities to end the contract under certain circumstances. In effect, the Government needs to accept revised delivery dates for the boats as they go through.

The Convener: Thank you. I will turn to a couple of areas. In paragraph 11 of your report—which, I think, is an amplification of a letter that the chief executive officer of FMPG that was sent to the convener of the Scottish Parliament's Net Zero, Energy and Transport Committee—you highlight that the estimated costs for the Glen Sannox, or 801, are £101 million and that the estimated costs for 802 are £108.6 million. Why is 802 more expensive than 801?

Stephen Boyle: I will turn to colleagues to see whether we can shed any further light on that. My assumption is that it relates in part to the factors that were identified in the due diligence review in relation to costs increasing for the provision of materials, building supplies and so forth. As that vessel comes later, it will be subject to a heightened period of inflated cost provision. Beyond that, if we have any further information, we can provide it just now. If not, we will do our best, but it may be a question that FMPG is better placed to answer.

The Convener: That is fine. I suppose that the expectation would have been that the second vessel would benefit from lessons learned in the construction of the first vessel, which would lead to a reduction in the cost base.

Stephen Boyle: I should say that that might well be the case as well, and that it otherwise would have been higher still. However, those are only speculations on my part. The yard itself is better placed to answer.

The Convener: I have a couple of questions about the wider business picture and the future of the yard. I think that I can speak for the committee as a whole in saying that we ask these questions because we want the yard to succeed and have a long-term future.

The present management team is involved in an arrangement with BAE Systems. From memory of what we heard when we visited the yard, that does not just involve sending FMPG employees down to the BAE Systems yards in Glasgow; it is also about work being brought from BAE Systems to be carried out in Port Glasgow. In the report that we have before us this morning, you say that some cash-flow issues arose from uncertainties about the financial arrangement between BAE Systems and FMPG. Could you elaborate a bit more on what those uncertainties are?

Stephen Boyle: I will start and then bring Joanne Brown to say what more we know about that. The intent behind including that in our report is exactly as you describe—to look beyond the delivery of the two vessels, and to provide the workforce with certainty about the future of shipbuilding and, by extension, what it might mean for the island communities that rely on those vessels.

The bulk of FMPG's activity is on 801 and 802, but as it looks to the future and tries to become a competitive provider of shipbuilding services—this relates to the report on future options that you alluded to earlier—its other income, as we describe it in accounting terms, is relatively small and is confined to its relationship with BAE Systems. You are right that some FMPG employees are seconded to BAE Systems to support that arrangement, and that might be a fruitful way for it to grow its other operations. However, that is relatively small. Once the two vessels are delivered, FMPG needs to have a plan, and it needs to start now if the organisation is to transition from the delivery of 801 and 802 to future operations. I am clear and have high expectations that that is very much part of the review that the Scottish Government is undertaking.

I will stop there and invite Joanne Brown to say more.

Joanne Brown: We were looking at the cash flow from an audit perspective and the 12 months from the date of signing has been touched on. The majority of the income stream for FMPG is through 801 and 802.

As part of FMPG's group set-up, it has a commercial entity that is a commercial limited subsidiary. When we looked at cash flows and cash-flow forecasts, the only balance was related to BAE Systems and, at the point of our audit, that was relatively small scale.

We had a conversation with management about the wider business plan and how there was potential for it to be upscaled. Equally, there was potential for Ferguson's to take on different commercial work, but our look at the commercial cash flow showed that there was not sufficient cash flow for a sustainable business. That is why our audit report talks about the importance of the business plan for the future direction. That will also allow the yard to better understand workforce requirements and the necessary level of investment, and whether it continues to work with BAE Systems as planned or whether there might be other contracts in the pipeline.

It was quite important to look at the cash-flow position. It was not related to the BAE work: it was about the organisation's wider cash flow and how sustainable it was at the point of audit.

The Convener: You have both spoken about the other income being small-scale. Can you give the committee an idea of what it is, as a proportion of the income that is going into FMPG? Is it 2 per cent, or 10 or 15 per cent?

Stephen Boyle: I am just trying to lay my hands on the FMPG annual report and accounts—when I do, I will update you.

Mark Taylor is going to have a quick look for those; can we come back to that question?

The Convener: Yes—we will let you move on, and you can come back to that.

My other question concerns the FMI report; I guess that I am asking you if you want to add to what you said about that earlier. Is the FMI report the report that has been commissioned by the Government and the yard? Is there other work going on? What is the synergy between the Scottish Government sponsorship team and the yard in developing a plan for a viable, long-term future?

Stephen Boyle: I do not know the answers to some of that, because I do not know whether the report that is being produced by the consultants that FMPG commissioned is the same report that the Scottish Government will use to determine the yard's financial viability.

As I mentioned, we understand that there are two reviews: one is on the due diligence for the costs, and the other is a wider review, which, in my understanding, is led by the Scottish Government as opposed to FMPG. The Government could confirm exactly how those two reviews interact. Clearly, that needs to be transparent—there would be no merit in making the report available only internally. The Government's intention has to be clear publicly, not only for the workforce, but because there are clear financial implications and commitments—as Joanne Brown mentioned—with the change in scale from the delivery of 801 and 802 to future provision. How the reviews work together is a matter for the Government and FMPG. From Audit Scotland's perspective, the Government has to be clear publicly about its intent regarding their completion.

The Convener: You used—advisedly—the word "reviews", plural. It is a little bit confusing, and perhaps in the realm of bewildering, that there could be more than one review with, presumably, broadly similar terms of reference. Aspects such as a business plan for the yard, what can be done to give it a sustainable future and what the market looks like are, presumably, part of the research that an organisation such as FMI would carry out. Why would there not be just one review to be signed off by both FMPG and the Scottish Government?

Stephen Boyle: To be frank, I am less surprised that there would be more than one review, given the different relationship that exists between the yard—as the provider, a company and a non-departmental departmental public body—and the Scottish Government. From the Scottish Government's perspective, it is the sole funder of the arrangement, so the two organisations have different relationships.

I appreciate that there is a blurring of boundaries, with both being public bodies. I am not commenting on the cost, because at present I have no understanding of what the reviews will cost—notwithstanding what has been reported in the newspaper article that has been mentioned—but I can understand why there might be a differently commissioned review from either party. The caveats to all that are that duplication would not be wanted if it could be avoided, and that there needs to be an eye on the cost.

The Convener: Again, I note that the reported cost for the FMI report is £200,000, is it not? There is also some concern about that report being covered by a non-disclosure agreement.

My final question goes in a slightly different direction. In the report, you highlighted the question of the demographic of the workforce in the context of the broader point about skills, and whether we are planning sufficiently to invest in the skills that we will need in future. To what extent, in your opinion, is the Scottish Government addressing what you have identified as a skills shortage?

Stephen Boyle: Do you mean within Scotland's total public sector workforce or just the specific—

The Convener: I am interested in shipbuilding skills.

Stephen Boyle: I do not think that I know the answer to that, to be frank. I do not know the extent to which the Scottish Government has a clear understanding of what shipbuilding skills will be needed and how it can access those.

09:45

We draw attention to that in today's report because it is a factor that must be considered carefully with regard to the yard's future viability. It is all very well to have the intent to secure new contracts for the provision; however, as has been highlighted, Ferguson Marine has a highly skilled but ageing workforce, and it is using contractors to support the delivery of the vessels. That might be the intent—we are not expressing a view on that, and we have done no audit work on it. However, as part of the overall assessment of the yard's viability, we have to be absolutely clear about where the skilled labour is coming from.

Again, we assume and expect that, when the Government completes its viability assessment, it will have a clear understanding of what labour provision will be available—not just in the immediate term, but in the years to come—and how it will plug that gap if the provision does not currently exist.

The Convener: I was referring to the line in your report that states that FMPG considers there to be

"limited shipbuilding skills available in Scotland and that, to date, it has been unable to compete effectively with the private sector for skilled staff."

Do you want to address that point?

Stephen Boyle: Yes, of course. That is a very clear risk to future viability. There are many factors in that, including the ability to compete with the private sector. That feels unusual given the relatively short time that it has been a public entity;

I do not have a clear picture of whether that competitiveness was a factor when Ferguson Marine Engineering Ltd was the provider. However, those are the factors that the yard's business plan will have to make assumptions about, and its workforce plan, with regard to how it secures and retains the future workforce, will have to be part of that.

There will be no shortage of labour in the longer term, if it is supported by adequate training, apprenticeships and so forth that provide a future for the yard. It is transitioning from where it is now to a longer-term workforce. That will be the key task for the management of the yard and for the Scottish Government.

The Convener: I invite Willie Coffey to put some questions to you.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Auditor General, the yard is able to offer 18 secondments to BAE Systems, and yet it is bringing in contractors to complete the work that we are discussing. How do we square that? Are the skills that are going out different from the ones that are needed to come in? Can you explain that? It does not make sense to me that the yard would let 18 staff be seconded when it needs to bring in contractors to complete the work.

Stephen Boyle: Good morning, Mr Coffey. I will ask Joanne Brown to pick up that question.

Joanne Brown: Ferguson's operates a flexible workforce model. It has highly skilled and experienced individuals who are employed by Ferguson's, but it also makes use of a flexible pool of contractors as needed in the delivery of 801 and 802. The individuals who have been seconded to BAE Systems are not needed at this point for the work on 801 and 802. That is linked to the wider point about upskilling Ferguson's employees. As part of the arrangement with BAE Systems, those employees will be learning new and different skills, which they will be able to bring back to Ferguson's. However, I believe that the chief executive has assured the relevant parties that the secondment of those individuals will not be detrimental to the delivery of 801 and 802.

My knowledge of shipbuilding is not great, to be honest, but with regard to the skills that are needed and when, certain skills are needed at very fixed points in time, so that is also how Ferguson's has managed the delivery between 801 and 802.

Willie Coffey: I think that we needed that assurance. Clearly, the secondments provide an income stream. We are waiting for the value and the figures that are associated with that. That income will go to the yard, but it is the Scottish Government that is ultimately paying for the contractors who come in. Provided that those are different skills, however, that is the assurance that we are looking for.

I have a few questions on the bonus payment issue. Auditor General, you said in your opening remarks that FMPG is required to comply with the Scottish public finance manual requirements. Do you think that the process of awarding those bonuses to the senior management team without any reference to performance indicators complies with the requirements in the manual?

Stephen Boyle: I need to be absolutely clear on the fact that Ferguson Marine Port Glasgow, as a non-departmental public body, is required to comply with the Scottish public finance manual. However, the Scottish Government public sector pay policy arrangements do not apply prescriptively to FMPG. Unfortunately, I have to drift into ambiguous terms: although it has to have a reference and parallels to, and understanding of, pay policy, the framework document does not provide sufficient clarity around those points. That has now come from the Scottish Government, following the publication of the audit report.

On the payment of the bonuses, I said in my opening remarks that we consider it unacceptable that £87,000 of public money was paid in bonuses—not from an ideological perspective, but because the payments were made without a clear KPI framework that was designed to support the payment of bonuses. Bonuses are relatively unusual in a public sector context; they do happen in a small number of other public bodies but, where they are paid, clear KPIs and governance arrangements need to be in place. In today's report, we draw attention to the fact that those factors were not in existence when those amounts were paid.

Willie Coffey: Do you think that that money is ultimately recoverable? I need to ask that question, and I am sure that the public are asking it. It beggars belief that a bonus could be applied, given that the boats are five years late. What constitutes bonus criteria in any of that to justify the senior managers taking that award?

Stephen Boyle: I do not know whether those amounts are recoverable. Others would need to make a judgment on the specifics of the terms and conditions that existed for those senior managers and what their contracts said.

We have drawn attention to those amounts, primarily because they were paid without the discharge of effective governance by the remuneration committee and without its being clear what performance measures had been met and that there was adequate scrutiny before they were paid. It is also a matter of public interest that bonuses have been paid to senior managers at the yard while challenges have been widely reported by the committee and elsewhere around the costs and timescales for the delivery of the two vessels.

Willie Coffey: Was there a sense that any of the workforce received a bonus payment? Was it just the six senior managers whom you referred to in the report who received them?

Stephen Boyle: I ask Joanne Brown whether she has any detail on that.

Joanne Brown: From the perspective of the audit, it was just those six individuals who received that payment.

Willie Coffey: Who would have ultimately approved that? Was that a senior management or a board decision? Surely the six people who got the bonus were not part of that decision-making process.

Stephen Boyle: I will start; Joanne Brown can then say a bit more about that.

We understand that there were two parts to the bonus. I understand that one part was intended to be for the delivery of the hull of vessel 801. That comprised 7.5 per cent of the bonus. There was a further 10 per cent discretionary element. The governance and decision making around that were based on a recommendation to the remuneration committee of FMPG by the former turnaround director and chief executive to make those payments. Our view was that that was not sufficiently robust—I am sure that Joanne Brown will want to pick up on that. It was not clear whether the KPIs had been meet. Again, that speaks to real ambiguity about progress and process. That led Joanne Brown to the judgment that I repeated in the section 22 report, which is that those decisions were made without adequate decision making having been in place.

I will pause. Joanne Brown can elaborate on that.

Joanne Brown: As we understand it, the actual approval was through the remuneration committee. Aside from the KPI point, it is also referenced that the level of detail in documents such as the remuneration committee minutes and the board minutes was very limited, particularly earlier on in our period of appointment. Nothing in the remco paper expanded on the rationale or the discussion that the committee potentially had. That was approved by that committee. We could not see a reference to it in the board minutes, which, again, were very light on detail. It was based on the short paper that the turnaround director presented to the remco, which it subsequently approved.

Willie Coffey: Auditor General, you mentioned the word "completion". That was part of whatever shape the KPI framework took. People decided to award themselves a bonus on completion of the hull, which was years late. How on earth can that have been? Why was that not for "successful completion" or "timescaled completion"? Why was that kind of language not part of a bonus award scheme? How could that still be validly paid, even if the completion was years late?

Stephen Boyle: I am not here to offer any mitigation, Mr Coffey. A new management team has come into Ferguson Marine Port Glasgow and inherited the circumstances that it was appointed to. The payment of bonuses in any organisation—and certainly in the public sector—has to be done transparently and on the basis of a clear performance framework, supported by robust governance. That is what we drew attention to in the report.

I will make a couple of additional points. As the former Deputy First Minister said in a statement to Parliament, the Scottish Government was not aware of the bonuses and nor did it approve them. We understand that those arrangements have been tightened.

I should say that bonuses still exist in the contracts of senior officials at Ferguson Marine Port Glasgow. The new chief executive has a bonus arrangement in their contract to be paid on the basis of delivery of KPIs. No bonus was paid to the chief executive in the year 2021-22. We hope that those arrangements are enacted and improved on. The external auditors will certainly keep a close eye on that as part of their audit work, as Grant Thornton has done for this year.

Willie Coffey: Can you pinpoint any timing issue? When exactly were the bonuses taken compared with when more public funds were being given to the yard? Can you draw any comparison there? Were they closely associated in time? I am trying to get at whether the bonuses were paid while the public purse was paying the yard more money to complete the ships.

Stephen Boyle: I will ask Joanne Brown to pick up on the timing in a bit more detail, but I think that that was the case. Unfortunately, I do not think that we are able to lay our hands on the relative amounts of other income derived from BAE Systems, but they are a very small fraction of the total income that FMPG receives. In effect, that means that the Scottish Government funds the provision of services, materials, the delivery of the vessels and staff costs. Public funds therefore paid for the bonuses. However, you are asking about the timing of additional funding requests. Joanne Brown might have details of that. If not, we can come back to the committee.

Joanne Brown: We can get the exact income that comes through from BAE monthly. However, at the point of our audit, it certainly was not more than 1 to 2 per cent of the total income that Ferguson Marine was receiving.

10:00

On the timing, the remuneration committee paper was from around February 2021, and it reflected on the position of the hull. I do not believe that it was associated with any change in delivery milestones or any change in funding. It looked at things from the point of view of hull completion and the end of the 2020-21 financial year, which meant that the payments were made in the 2021-22 accounts.

Willie Coffey: You have answered the question about whether FMPG sought approval, and you have made it clear that it did not.

Finally, Auditor General, do you think that the decision to award the bonus payments shows a complete lack of awareness of the seriousness of the situation in the yard? Do you think that the management team awarding itself those bonuses was completely and utterly inappropriate?

Stephen Boyle: I have said publicly that I think that the payment of those bonuses in those circumstances, without a proper KPI framework, adequate scrutiny and effective governance around the payments, was unacceptable.

Bill Kidd (Glasgow Anniesland) (SNP): I want to re-emphasise what you stated in your report. You said:

> "There was a lack of transparency and good governance around the assessment and approval of these payments."

You also stated:

> "FMPG's Remuneration Committee membership consists of: the Chair of the Board, two Non-Exec Board members and the Turnaround Director."

It does not do any harm to emphasise who actually gave the right for those payments to be made, because it suggests that proper oversight of what was happening in the situation was not being taken from outside.

Stephen Boyle: I will elaborate on that. You are right. You have set out the membership of the remuneration committee of Ferguson Marine Port Glasgow, which is a committee of the board, which has overall responsibility for the effective governance of FMPG.

You have quoted from the report, which says that good, effective governance and the effective operation of a remuneration committee as it considers senior managers' salaries and bonus payments means having proper scrutiny that is based around a performance KPI framework, and that deliverables should be clear and the process should be scrutinised effectively. We did not see effective processes around the £87,000 bonus payments.

It might be worth updating the committee on what has happened since. After those events, in November last year, FMPG's remco considered a revised performance framework for its senior managers and the chief executive. We understand that that is still awaiting consideration and approval by the Scottish Government. Joanne Brown might be able to say a bit more about current events.

There is a lack of clarity about how the Scottish Government expects Ferguson Marine Port Glasgow to operate as both a public body and a company limited by guarantee that operates in a commercial environment. That speaks to the issue mentioned at the start of the meeting. Those matters need to be resolved to avoid a repeat of the bonus issue and the issue of the wider need for viability of the yard.

The Convener: Thank you. That is a very clear message.

Craig Hoy wants to bring up further related matters.

Craig Hoy (South Scotland) (Con): Good morning, Mr Boyle. For clarity and to recap to some extent, from your perspective, does the yard have a viable future?

Stephen Boyle: That is a question that we are perhaps not in a position to answer until we see the conclusion of the Scottish Government's assessment of the yard's deliverables. What we looked to point to in the report was that no long-term order book exists beyond the delivery of MV Glen Sannox and vessel 802. There is progress in the relationship with BAE Systems but, in order to transition effectively to a long-term, successful shipyard, there has to be a clear business plan that is supported by a viable workforce. That is awaited. I am not able to say, "Yes, it does" or "No, it doesn't" until a clear, transparent view exists that there is a potentially successful business plan.

Craig Hoy: When they were asked about what has gone wrong and the shortcomings and misgivings, the Scottish Government and the former First Minister said that we should leave all that to one side because, ultimately, they have saved the yard and the jobs there. In light of what you have said, is it premature to say that the yard has a safe, long-term future?

Stephen Boyle: It is clear that there are two significant vessels to deliver—vessels 801 and 802—but there will be doubts about the long-term viability of the yard until it is clear that a plan is in place. As we have discussed, that plan is awaited.

Craig Hoy: Mr Coffey asked about the bonus payments. Paragraph 26 of the report confirms that the

"Framework Agreement includes an overall framework for pay"

but that that

"was not formally agreed until March 2022",

which was obviously

"after bonus payments were approved."

Given that FMPG came into public ownership in November 2019, why do you think that it took so long to establish that vital framework for pay?

Stephen Boyle: That is a question to ask the Scottish Government in order to be absolutely clear on its perspective on the timescale. I will ask Joanne Brown to come in, because we know that a considerable number of conversations took place about iterations of the framework agreement, which she can set out for the committee. However, even after a framework agreement has been settled on, we still have ambiguity. A challenging process was undertaken to arrive at a framework agreement, but it is still not delivering the clarity that the public body deserves. Ferguson Marine Port Glasgow deserves to have absolute clarity on what is expected from it, so work still needs to be done.

Joanne Brown can set out for the committee what preceded that agreement.

Joanne Brown: On the development of the framework agreement, I understand that it took around 12 to 18 months to get it agreed between both parties. An initial version that the Scottish Government shared was very much an NDPB template framework agreement. Ferguson's highlighted a number of points and concerns about the framework and how it would be able to comply with it in practice. One of those concerns was about whether public sector pay policies applied and what was intended in some of the wording in the agreement.

The agreement proved to be a little more complex because of Ferguson's group structure and the fact that it has a limited company. From the point of view of Ferguson's, the question was whether that was sufficiently nuanced in the framework agreement. Although the agreement was officially agreed in March 2022, discussions took place for a period of time.

Craig Hoy: Mr Boyle, you have mentioned that the language was somewhat opaque around the issue of the pay policy. You said that pay should be

"broadly consistent with the provisions of"

Scottish Government

"pay policy",

and that

"Any significant deviations will require further approval."

In February 2023, the Scottish Government provided clarification on those requirements. Can you provide further detail on what those clarifications were, and whether you are confident with the steps that the Scottish Government has subsequently taken?

Stephen Boyle: I will ask Joanne Brown to say a bit more—or Mark Taylor if he wishes—on the specifics of the clarification.

There are signs of progress. There is a move towards a clearer understanding of how Ferguson Marine Port Glasgow is intended to operate as a public body.

I will step back for a moment, if I may. On pay arrangements in particular, we draw attention to the arrangements that now exist for the chief executive. I mentioned performance-related pay a few moments ago, and the salary arrangements for the chief executive are a matter of public record. They are quite at odds with the salary arrangements for the former turnaround director, and we include the overall salaries in the report.

That speaks to the fact that although Ferguson Marine Port Glasgow is an NDPB, it must still operate and recruit very specialist skills in a different environment from other public bodies. I understand the need for that flexibility, but what matters is the clarity with regard to how it must operate and marry up those two factors. I will ask Joanne Brown to come in on that.

Joanne Brown: As I understand it and as the Auditor General said, the November 2022 remuneration committee for Ferguson's proposed KPIs in relation to potential bonus payments. There are nine KPIs and a KPI framework to assess whether the chief executive is entitled to a bonus payment. Ferguson's has shared the framework with the Scottish Government for approval, but it has not yet been approved. I understand that the Scottish Government is still discussing that, alongside how Ferguson's could benchmark its salary and pay arrangements with similar entities to determine whether they are reasonable or otherwise. However, again, that is a matter for Ferguson's and the Scottish Government to seek approval on.

Mark Taylor: I will add a couple of overall observations, one of which is about timing. I think that we have been clear that the Scottish Government was not asked to approve the bonuses that were paid. It is our understanding that, as a result of learning about those bonuses, clarification of how the system would work was provided.

I will give an overview of the detail. Right at the heart of that is the fact that any future bonus schemes or payment require to be approved by the Government. That clarification is part of the essence of what that discussion was about.

Craig Hoy: In relation to the chief executive's bonus, the provision is that 40 per cent of base salary could potentially be granted as a bonus. You say that those negotiations are on-going, but what would cause there to be a delay? It would seem to be a relatively easy thing to benchmark. Is that the prevailing rate in the private sector? I recognise what you say about the need for there to be some consistency with the private sector. Should we read anything into the fact that that has not yet been agreed and that the outcome is somewhat delayed?

Stephen Boyle: I am not sure that we are sighted on any immediate challenges to that framework. At this stage, the assessment of the delivery of the KPI framework that Mark Taylor mentioned is a matter for FMPG's internal governance. We will review that as part of this year's audit and report on it.

Craig Hoy: When we visited the yard, some of the workers who had been there from the get-go said that, at various stages, they could liken the situation to a gravy train running through the middle of the yard, because the people who were doing the work were not necessarily being rewarded but, at various points, people in senior management certainly were. That gave us some cause for concern. Obviously, it appears that the issue of pay is now being addressed satisfactorily. Are there any other areas, such as expenses or the use of contractors or third-party agencies, that could give you cause for concern in the future or have you adequately looked into all other areas of potential expenditure?

Stephen Boyle: I will say one thing about that, but Joanne Brown will have a perspective on that as part of her audit. I repeat the point that I made earlier about value for money, which is a phrase that remains undefined in terms of the Scottish Government's expectations of Ferguson Marine. To deliver value for money for the public purse, it is reasonable for the accountable officer—especially given the nature of the framework and the funding arrangements for the Scottish Government—to have clarity on the expectations of the funder, which is the Scottish Government, about the criteria for making a judgment on value for money. That needs to be put in place.

However, with regard to the overall assessment, Joanne Brown and her colleagues at Grant Thornton will have considered value for money as part of the overall audit, based on and informed by the judgments that the yard's management has made, to the extent that they were able to.

Joanne Brown: With regard to salaries, wages and contractors, the forecasts for 801 and 802 are very detailed, and that is where the due diligence happened. That included salary inflation, pay changes, a challenge back around the costs of contractors, and what clawback Ferguson's would have if a contractor failed to deliver. Those things were subject to the due diligence that was requested by Scottish Government.

Wider pay at the yard is discussed with the unions that it has in place. Any approval of annual salary changes and so on has to be signed off by the Scottish Government.

10:15

The Convener: I want to pick up on that point before I bring in Bill Kidd. To go back to the framework agreement, Joanne Brown, you said that it was 12 to 18 months in the making. On pay, the framework agreement talks about maintaining

"regular dialogue with the SG Finance Pay Policy on any proposals with an expectation that these will be broadly consistent with the provisions of SG Pay Policy and Staff Pay Remit. Any significant deviations will require further approval."

Was that iteration in circulation at the point at which the turnaround director drafted a paper that was approved in February 2022, just a month before the framework agreement, including those clauses, was introduced? Was it a pre-emptive strike by the turnaround director?

Stephen Boyle: It is hard to be definitive about that. We would want to be absolutely clear about the text of the framework agreement that was extant when those bonus payments were made, so I am hesitant to say that that is case.

I will ask Joanne Brown to come in while I think about that a bit further.

Joanne Brown: There are a couple of points to pick up on about the timeline. The entitlement to a bonus of up to 20 per cent was obviously in the contracts that were put in place by the turnaround director in 2019 when those employees transferred to or joined Ferguson's as a public sector entity.

On the timing of the remuneration committee's approval of the bonuses, they were paid in the 2021-22 accounts, but approval was given in April 2021, which was before March 2022, when the framework agreement was approved.

When Ferguson's became a public sector entity, there was also a somewhat complicated process to make the turnaround director the accountable officer, and that did not happen until November 2021. That process reiterated the SPFM requirements.

There is therefore a little bit of ambiguity around the timeframe and the sequence of what applied when, but the drafting of the framework agreement remained broadly consistent on those points.

The Convener: So there is a possibility that there could have been a pre-emptive strike. The 2021-22 Scottish Government pay policy guidelines stipulated a minimum 2 per cent pay increase for public sector workers who were earning between £25,000 and £40,000, and it was 1 per cent for those who were earning between £40,000 and £80,000. The payment of a 17.5 per cent bonus was therefore, in anybody's terms, a significant deviation from the Government's pay policy.

Stephen Boyle: There is no doubt about that, and that is not the only example. Perhaps more significant than the bonuses is the turnaround director's overall remuneration. I know that the committee has considered that matter previously and we highlight it at paragraph 28 of our report. It does not bear reference to what other accountable officers would be paid.

There are significant differences between the pay arrangements that were in place when Ferguson Marine Engineering Ltd existed and those that were in place after it transitioned. Some of the practices continued operating as a commercial entity would, but they were funded by the public purse. There were a host of payments in the bonuses and some of the overall remuneration arrangements that were quite at odds with public sector pay and rates that would have been paid elsewhere in the public sector.

The Convener: For us, as the Public Audit Committee, the question is not just about the fact that those things happened but that they were allowed to happen. Where was the sponsorship team and where was the Government's oversight? To me, that seems to be a fundamentally important question.

Stephen Boyle: I agree absolutely. There has been—I have used this phrase a lot this morning—prolonged ambiguity about the Government's intentions, and that manifested itself in the time that the framework agreement took to be agreed. The fact that it still contains sections that are open to interpretation suggests that real clarity needs to be provided as quickly as possible, while bearing in mind that, although Ferguson Marine might be operating as a commercial entity, as we have discussed this morning, it is almost exclusively funded by public money.

The Convener: I invite Bill Kidd to ask a couple of final questions.

Bill Kidd: I do not want to reiterate something that has been stated a few thousand times, but your report says that the Ferguson Marine remuneration committee's approval of a performance framework for senior managers and the chief executive has

"not yet been discussed with, or approved by, the Scottish Government",

and I am not sure whether there have been developments in relation to seeking approval. You mentioned that there have been moves to talk about those things, but have any real developments taken place that show that relationships between the company and the Scottish Government are going in the right direction?

Stephen Boyle: I will pick up on the relationships point and I will ask Joanne Brown to say a bit more about the KPI framework and remuneration, which she has already partly covered.

There is clearly on-going engagement between the Scottish Government sponsorship team and Ferguson Marine Port Glasgow. Given the risks that exist and the on-going nature of the delivery of those contracts, which have continued to have delays and have called on further public funds, we are asking—through the annual audit report and the section 22 report—whether the Government is satisfied that its sponsorship of Ferguson Marine Port Glasgow is operating as it wants it to.

There is no one-size-fits-all approach to sponsorship of public bodies, but it feels like there is quite a contrast. It is not a perfect analogy, Mr Kidd, but the original intent around the framework agreement was for a fairly generic non-departmental public body, and Ferguson Marine Port Glasgow is far from a generic NDPB, so the Government and Ferguson really need to be satisfied that that relationship is operating, managing risks and safeguarding public funds. I will stop and ask Joanne to say a bit more about what we know of the approval arrangements for pay.

Joanne Brown: The revised KPI framework was considered and approved by the Ferguson's remuneration committee in November. We understand that that was shared with the Scottish Government in February, for its consideration and subsequent approval, and that those discussions between Ferguson's and the Scottish Government are still on-going. As I understand it, there is a piece of work around benchmarking not just senior salaries but salaries more widely across the sector. There is also a piece of work that is looking at what is in the employee contracts and what is sufficient from a public sector openness and transparency perspective, along with what, contractually, Ferguson's is potentially required to deliver on. Those discussions are on-going and are a matter for Ferguson's and the Scottish Government.

Bill Kidd: Your report states that

"The Scottish Government commissioned an independent review"

of Ferguson Marine's estimates of costs, which concluded that Ferguson Marine's cost estimates

"are reasonable but more contingency needs to be built in as risks still remain."

Are you working on the basis that it is an on-going process and that, once the two ferries are completed, there is still a lot of work left to do in order to bring Ferguson Marine on to a more sustainable route towards success and continuing work?

Stephen Boyle: A number of things are part of that. The section of the report that you quoted specifically relates to the due diligence that the Government undertook on Ferguson's request for additional public funding. The review made the broad assessment that the estimates were reasonable but that they contained risks, particularly around the need for additional contingency, in the light of past history. There were also other factors, such as future cost inflation and the delivery of supplies.

It is too early to say whether that provides a secure, solid foundation, so that future costs are manageable and, beyond that, a viable, long-term future will be delivered. That judgment can be made only when we have clarity from the Scottish Government. We are waiting for a report, which goes alongside the review, about the future viability, and it is only once we have read that that we will we know more about what the future holds.

Bill Kidd: At that point, we will be able to feel more confident that sponsorship arrangements are working in the effective manner in which they should be.

Stephen Boyle: The two things have to go hand in hand. Sponsorship arrangements in other public bodies are a key part of the Government's ability to get early understanding of the progress of events and assurance that, ultimately, the public body is doing what it is intended to do.

Given the scale of public interest, the risk is heightened in Ferguson Marine Port Glasgow. It is rare for other public bodies to come back with requests on the scale of Ferguson's requests. There would typically be additional supplementary estimates, budget requests and spring and autumn revisions, but the scale and pattern of Ferguson's requests require a really effective two-way relationship and robust sponsorship arrangements.

The Convener: Thank you very much indeed. We have run slightly over the time that we had anticipated, but it was important to draw out some of the important pieces of evidence that you have given us this morning.

As always, I thank you very much for your co-operation and frankness, which has been very helpful for us. We will, of course, need to determine what our next steps are but, for the moment, I thank the Auditor General, Mark Taylor and Joanne Brown for your candour this morning, which has been very valuable. I now move the committee into private session.

10:27

Meeting continued in private until 11:00.

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