OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Wednesday 5 February 2025

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 5 February 2025

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PUBLIC AUDIT COMMITTEE
5th Meeting 2025, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Stuart McMillan (Greenock and Inverclyde) (SNP)
*Graham Simpson (Central Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Cook (Scottish Government)
David Dishon (Ferguson Marine (Port Glasgow) Ltd)
Gregor Irwin (Scottish Government)
Andrew Miller (Ferguson Marine (Port Glasgow) Ltd)
John Petticrew (Ferguson Marine (Port Glasgow) Ltd)
Dermot Rhatigan (Scottish Government)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 5 February 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning, and welcome to the fifth meeting in 2025 of the Public Audit Committee.

Agenda item 1 is a decision on taking business in private. Do committee members agree to take items 3 and 4 in private?

Members *indicated agreement.*

Section 22 Report: "The 2023/24 audit of Ferguson Marine Port Glasgow (Holdings) Limited"

09:30

The Convener: Agenda item 2 is further consideration of the report, "The 2023/24 audit of Ferguson Marine Port Glasgow (Holdings) Limited". This morning, we are very pleased to welcome to the committee a number of representatives from both Ferguson Marine Port Glasgow (Holdings) Ltd and the Scottish Government to give evidence on the report.

I extend a welcome to our witnesses. David Dishon, is chief financial officer and accountable officer, FMPG, Andrew Miller is chair of the FMPG board, and John Petticrew is interim chief executive, FMPG. From the Scottish Government, we are joined by the director general for economy, Gregor Irwin. Alongside him are Colin Cook, director of economic development, and Dermot Rhatigan, deputy director, strategic commercial assets division.

We have some questions to put to you on the report, but before we get to them, I ask Mr Miller and Mr Irwin to give opening statements, beginning with the director general for economy, Mr Irwin.

Gregor Irwin (Scottish Government): Good morning, convener, and thank you.

The Scottish Government recognises the critical importance of good governance, transparency and value for money in managing public assets, and the strategic commercial assets division plays a vital role in upholding those principles.

We thank the Auditor General for his report, which highlights significant governance failings at Ferguson Marine. Those failings are unacceptable. I know that the board understands and shares that view; over the past year, it and the management team have taken significant steps to address the issues identified by Audit Scotland, and progress is already evident.

Following the dismissal of the former chief executive officer, internal audit processes have been strengthened, although there is further to go in that regard. Decision-making authorities have been clarified, and the position of accountable officer has been reassigned to the new chief financial officer. Additionally, the approval process for settlement agreements exceeding £95,000 has been strengthened to ensure scrutiny by the remuneration committee and the board before submission to Scottish ministers for final sign-off.

We have supported the board in finding a new chief executive officer, and we are very grateful to John Petticrew for extending his tenure as interim CEO as we do that.

Audit Scotland's section 22 report also raised concerns about Ferguson Marine's sustainability as a going concern. The completion of the Glen Sannox is the start of a new phase for the business. The board is reviewing the yard's commercial strategy and business plan, including the plan for investment, and is pursuing a range of promising opportunities to secure a future pipeline of work.

Let me reassure the committee that we remain resolutely committed to working closely with the board to address governance concerns, to ensure the successful delivery of the Glen Rosa and to support the yard's long-term commercial success.

The Convener: Thank you, Mr Irwin. I call Mr Miller.

Andrew Miller (Ferguson Marine (Port Glasgow) Ltd): I concur with the DG's opening remarks. During my 24-month position as chair of Ferguson Marine, we have employed better governance, better control and better understanding of risk in the enterprise. I am ably assisted by five other fellow non-executive directors, who were appointed because of their skills base with regard to this sort of reporting.

We have made significant improvements to the business. I do not want to pre-empt the committee's questions, but I want to make two things clear.

The first thing is about the reporting under the year-end audit by Audit Scotland, involving some of the people who are sitting behind me, and the section 22 report. The items that were raised in those were self-raised by the enterprise through the good offices of the accountable officer, David Dishon, who sits to my right. They were raised in a transparent way by the enterprise and by the ministerial department that supports us, and action was taken at that time. We are referring to things that happened during the calendar year 2022, so they go back quite a while to before I started, although I accept 100 per cent accountability.

The first thing is that the items were self-reported during the year-end audit. There were some financial issues on which we had to involve HM Revenue and Customs—I am sure that some of the questions to come will be about that. We paid the moneys that were due, and there were no financial penalties from HMRC, due to the good way that we reported, through David's good offices.

The second thing that I want to make clear is about the timetable of what we are dealing with today. It was the calendar year 2022, and we are now in the second year of audit reporting. Nobody can give you any guarantees, but it is very important to understand that the risk of further issues coming to the surface is fairly minimal.

The board's attention over the past year has been towards the strategy for the business, long-term planning, the market availability for Ferguson Marine to focus on and how we liquidate the economic value from the market in what is one of the most buoyant times for shipbuilding in the United Kingdom.

We welcome the questions from you and your committee, and we will respond with openness and enthusiasm. I might add that, if the committee wishes to come to the yard—it is, I think, two years and three months since your last visit as a group—we would welcome that, as it would allow us to explain in greater detail the forward thinking of the business.

The Convener: Thank you very much indeed, Mr Miller. Just to be clear, the audit that we are considering is for the financial year 2023-24. You referred a couple of times to 2022. That crops up in the report, but this is an audit of the most recent financial year, in which Audit Scotland concluded that there are issues around

"risk and uncertainty"

and

"governance arrangements and internal controls".

So my first question to you, Mr Miller, is: do you accept the findings of the Audit Scotland section 22 report?

Andrew Miller: We provided the information that ended up in the section 22 report.

The Convener: So you accept the findings.

Andrew Miller: Yes, 100 per cent.

The Convener: Okay. On behalf of the Scottish Government, Mr Irwin, do you accept the findings of the Audit Scotland report?

Gregor Irwin: Yes.

The Convener: Thank you.

I turn to some of the governance issues that are highlighted. One thing that has taken some time to come to fruition is a framework agreement between the Scottish Government and FMPG. The most recent iteration of that was published in, I think, October 2024. It was an attempt to codify people's roles and responsibilities and to ensure that people understood that FMPG, while operating as a shipyard and competing in the commercial sector, is nonetheless a non-departmental public body and is expected to comply with things such as the Scottish public finance manual.

Mr Irwin, that framework agreement sets out clearly that your responsibilities as the accountable officer include the requirements of propriety and good financial management. There are questions about what happened during the financial year 2023-24 at FMPG under your watch. How do you respond to that?

Gregor Irwin: The role of the Scottish Government with regard to Ferguson's is to ensure that budgets that are allocated to it are used in a manner that is consistent with the SPFM. Absolutely, as accountable officer, when we receive cost forecast increases, for example, I have to undertake an accountable officer assessment. As I do that, I have to test whether the proposition offers value for money, as well as being regular and proper.

As you know, last year, I conducted an accountable officer assessment that looked at the increased cost estimates for Glen Rosa. That is different from assessing the day-to-day management of the yards, which is the responsibility of Mr Dishon as the accountable officer for Ferguson Marine. There is a balance of responsibilities between me, as the portfolio accountable officer, and Mr Dishon, as the accountable officer for Ferguson Marine itself.

The Convener: Okay. Let me look, then, at the role of the strategic commercial assets division of the Scottish Government. According to the framework agreement, the division has responsibility,

"including financial and operational and when appropriate intervening".

When I read the minutes of the board meetings—although no minutes of board meetings have appeared on the FMPG website since 30 May 2024, which is quite remarkable—I saw that the board meetings are attended by members of the Scottish Government's strategic commercial assets division. Do they not have a responsibility for the failures of governance and internal control?

Gregor Irwin: Representatives of the Scottish Government attend board meetings as observers. They are not participants in those board meetings—

The Convener: Hang on a minute. The last minute that was published—it is very thorough—clearly shows interventions and speaking parts by members of the strategic commercial assets division. Frankly, I would expect that. As the DG economy for the Scottish Government, you might not, but I would expect it.

Gregor Irwin: It is entirely appropriate for members of the division—or, indeed, for Colin Cook, as the director of economic development—to ask questions and seek more information when they attend board meetings. I would expect them to speak at those meetings. However, they are not part of the decision-making process. They do not have authority in the board to participate in decision-making processes.

Again, there is a clear delineation of responsibility, which is set out in the framework agreement.

The Convener: If issues of internal control and governance are highlighted by the Auditor General's report, is there not a duty or a responsibility on those people, as observers of the board meetings, to voice concerns or to intervene, as set out in the framework agreement?

Gregor Irwin: Certainly, if we have concerns about internal controls or other governance matters, or a failure of the Ferguson Marine board or other parties to comply with the terms of the framework agreement, there is a responsibility to escalate those concerns. They would be escalated to me and, eventually, to ministers. There are appropriate processes in place for doing just that.

The team works daily with Ferguson Marine. We do all that we can to be well sighted on developments at the yard. We do not get involved in operational decision making; that is, rightly, left to the management team at the yard.

The framework agreement is between two parties: the Scottish Government and the yard. We do all that we can in our interactions with the yard to ensure that there is proper compliance with all elements of the framework agreement.

The Convener: Your own framework agreement, which you signed off, says that there is a responsibility on the Scottish Government's strategic commercial assets division to

"address in a timely manner any significant issues arising in the organisation including financial and operational and when appropriate intervening".

Why have there not been interventions in the cases that were identified in the audit report?

Gregor Irwin: It may help if we look at individual cases—

The Convener: We will get to those in a minute. I am asking you, as the accountable officer in the Scottish Government, for an overall point of view. Maybe Mr Rhatigan or Mr Cook can address some of these questions—

Gregor Irwin: I suggest that maybe we—

The Convener: I am anxious to understand this. If it is set down in black and white in a written agreement, either there has been negligence or the agreement has not been followed;

alternatively, there has been a misrepresentation of what happens on the ground.

Mr Cook wants to come in.

09:45

Colin Cook (Scottish Government): If I may, convener, the rest of the sentence that you read out says:

“whilst recognising the aim to ensure that the organisation is operated on an arm’s length commercial basis”,

and we make judgments on that basis. As you have said, there is documented evidence of people in board meetings such as me, Dermot Rhatigan and others being asked for contributions and intervening when appropriate. That has happened.

As Gregor Irwin said, we can look into individual cases, but, as Andrew Miller said in his opening statement, the fact that those issues have been raised suggests that SCAD, Gregor and I have identified them and worked with the board to address them. We will happily explore the individual cases.

The Convener: Okay. We will get into the detail of some of those questions shortly.

Can I just ask another question, slightly cheekily, perhaps? I should declare my trade union interests. The framework agreement talks about a

“Trade Union Representative being present and contributing to relevant items at Board meetings”.

Why is it not relevant for a trade union to have a view on issues that come up in the board minutes, such as health and safety, environment and security, or the intake of apprentices? Why is it not rightly in the domain of the trade unions to be involved in those discussions? Are the company’s financial position, the business plan and progress with vessels 801 and 802 not of concern to the trade unions and workforce in the yard?

Colin Cook: If I may, I will leave it to Mr Miller to talk about the conduct of board meetings. As an observer, I see an actively engaged union that comes to every board meeting and comments on many of those issues, and that makes a valuable contribution.

The Convener: Is the trade union representative in the room for the whole of the board meeting or are they brought in at a certain point?

Andrew Miller: They are brought in at a certain point for 15 minutes. However—

The Convener: For 15 minutes?

Andrew Miller: I will add that Alex, the GMB member, is on the health and safety—

The Convener: That is Mr Logan.

Andrew Miller: Yes. He is an active participant on the health and safety committee and he is in the room for about two hours.

There is informal dialogue as well as formal. In fact, yesterday, when I was in my office at Ferguson Marine, Mr Logan came in to run through some of the questions that he thought we might be asked at the committee this morning and give his points of view on some of the areas. It was a casual 15-minute conversation that was not part of a board meeting.

John Petticrew will confirm that members of the senior management team of the enterprise are actively involved with unions on a lot of things to do with our future. They have a healthy input.

The Convener: Yes, well. Their involvement at the board meetings is interesting.

Mr Miller, while you have the floor, why have no board minutes been published on the FMPG website since 30 May 2024? That is more than eight months ago. For your information, this committee is interested in transparency. I presume that the board has been meeting, and we will get to that later on.

David Dishon (Ferguson Marine (Port Glasgow) Ltd): Yes, we have, and the July and September minutes will go online this week. We have been looking at the commercial sensitivity of those and redacting. That is now finished so those minutes will be published this week. The November minutes were just approved by the board last week, so we will do those in the next week.

The Convener: It might have been useful for us to see those minutes before you came to give evidence.

On a related point, Mr Irwin, because you have written to us previously to inform us, we know that you plan to publish an information pack on the due diligence reports in connection with FMPG and also a few other instances. That is due to be published in two days. Is there any reason why that could not have been published in advance of today’s meeting and evidence session?

Gregor Irwin: The decision to share the information on 7 November was taken before we were invited to the committee.

The Convener: Do you mean 7 February?

Gregor Irwin: Yes, sorry. That decision was taken before we were invited to appear at the committee.

The Convener: But having been invited to it, and knowing that you were going to publish that information two days after the committee meeting, did you give any consideration to publishing it in advance of the meeting?

Gregor Irwin: The team works to an agreed programme. I am not aware of any consideration being given to that, but it was agreed a few weeks ago that we would work towards that date.

Clearly, consultation and a number of processes need to take place to get agreement to the exact way in which those documents will be presented.

The Convener: Does that include clearance from the cabinet secretary?

Gregor Irwin: She has agreed to the approach that we will take and the fact that we will release those six reports in a redacted form and the Burntisland Fabrications report in an unredacted form.

The Convener: We might invite you back to give oral evidence on those reports when we see them.

I have a couple of other questions to put to you. There are issues with the negotiations that are taking place around, for example, the small vessel replacement programme. Can you update the committee on where those negotiations are and when you expect decisions to be made?

Gregor Irwin: The process is led by Caledonian Maritime Assets Ltd, and Transport Scotland is lead department within the Scottish Government. As you know, they have shortlisted six firms as part of that process, and Ferguson Marine is one of those firms. As I understand it, they are now in a phase of detailed technical assessment. A decision on the next phase of that procurement exercise will be taken within the next few months.

The Convener: I asked this question of John Boyd from Audit Scotland. Is it a single award? Is there an expectation that the award may be the subject of subcontracting and a sharing of the contract, or will there be just one tender and one beneficiary?

Gregor Irwin: This is the first phase of the small vessel procurement programme. It is a single procurement exercise. There is a prospect of a second phase subsequently, but that is not what is currently being considered.

It is always the case that, when a tender contract is awarded, there will then be subcontracting. The supply chain of subcontractors is an important part of the wider economic benefit associated with any building programme of this sort, but it is a single procurement exercise.

The Convener: Other members might ask you further questions about that.

Finally, I turn to the aspect of the report—on which we took further evidence from Audit Scotland—about difficulties with the internal audit arrangements.

Mr Miller, you have been saying that you have told Audit Scotland what to put in its report, and that you have volunteered everything, so there is nothing of any revelation to you. Do you think that it is satisfactory that there are criticisms of the internal audit arrangements? The report talks about a number of high-risk and medium-risk areas. Can you elaborate on what they are and tell us what your disposition is on the internal audit arrangements?

Andrew Miller: I will make some quick introductory remarks before I pass over to David Dishon. When I joined the board, it was of concern to me that there was no formal internal auditor looking at the internal processes around governance. My view was that it was in the SPFM and the framework agreement that all enterprises had, of necessity, that internal function.

I will pass over to David, who is the expert in that area, to clarify some of the areas in relation to speed, delivery and the work list that we must go through as part of our governance process.

David Dishon: We appointed BDO, which had a plan to do around six or eight internal audit reviews in its first year. It managed to get through three. Bandwidth and changing senior management and operational management made engagement difficult. BDO has admitted that, with the amount of turnover, that was probably an ambitious plan for the first year.

We are now fully engaged with BDO on a weekly basis. It has started, and is close to finishing, three reviews for this year, and it is about to do another three, which will finish by the end of June, so we are on track to do the six this year.

I am in the process of appointing an audit and risk manager, which will be a fully engaged liaison role. When we have gone to the audit and risk committee every second month, that has been a push from me to say that we need to engage more. We had 10 high-risk and 19 medium-risk areas, which were mainly from the payroll and information technology audits. All 10 high-risk areas have been addressed, and management responses have been put in for them and for 17 of the 19 medium-risk areas. The other two will really be addressed when the audit and risk manager and the payroll manager come in; they will be able to do the proper training for that. We are on course to do that.

Engagement has certainly improved. I am much happier and much more comfortable with the engagement with internal audit.

The Convener: In the interests of time I will now move things on. I invite Graham Simpson to put some questions to you.

Graham Simpson (Central Scotland) (Con): Good morning, gents. I want to go back to something that the convener was asking about: the publication of board minutes. Mr Dishon, is it normal practice to publish sets of board minutes en bloc, as you appear to be about to do?

David Dishon: No, it is not. Let us take the January board meeting that we have just had. The minutes for that will get approved, along with all the sub-committees that happened, at the March board. We will then look for commercial sensitivities and at redaction—we would expect that at the start of April. The July and September minutes should have been done by now. We are addressing that, and we will publish them this week. We will also publish the November minutes in proper time—that is, in the next couple of weeks.

Graham Simpson: So, the last meeting that you had was in January.

David Dishon: Yes.

Graham Simpson: What was on the agenda for that meeting? Do you mind telling us?

David Dishon: There was a significant number of items on the agenda for the January board meeting, including some standard ones.

Andrew Miller: I can answer that question in relation to the process of the board. This has come up previously; you will have heard that evidence and watched the videotape of previous questioning before we came along today—I think that Mr Beattie raised the matter. Is six board meetings enough for the enterprise, given the state of Ferguson Marine and the ability to turn the business around and create a long-term future for the enterprise? That is a very good question.

We meet the day before the board meeting. We have sub-committees of the board, which cover four areas, including audit and risk, remuneration, and health and safety—that was not an independent committee before I joined. We also introduced an operational committee, which considered the operational issue with regard to the Glen Sannox and the Glen Rosa.

Those committees are chaired independently of me, although I sit as an observer on occasion. They will deal with those issues, which might have been delegated from the board the day before—the meetings consume a whole day—and they will report verbally to the board the next day on what they covered. The agenda items and the minutes are available to any board member. If board members want to join those committees as observers, they can do so.

The minutes are approved for the previous board meeting two months before in terms of the sub-committees, and they then come to the board for final approval. That is the process of governance. The skill set on the sub-committees is determined by the general items on remuneration, employment and other related items. There is a process—the minutes will always be two months behind in terms of publication. [*Interruption*.]

Graham Simpson: There seems to be some feedback somewhere. We will see if we can get that sorted out. [*Interruption*.] Good—that is a little bit better.

I guess that, at those meetings, you would discuss the progress of the Glen Sannox and the Glen Rosa—I would imagine so. I read a headline in *The Scotsman* earlier; I did not read the full story, but the suggestion was that there had been further delays to the Glen Rosa. Is anyone able to shed any light on that?

10:00

John Petticrew (Ferguson Marine (Port Glasgow) Ltd): We are in the process of doing a bottom-up exercise on the Glen Rosa that will include all the lessons learned that we got at the tail end of the Glen Sannox project. We intend to provide a schedule so that David Dishon's department can look at the costs and get something to the board in the next two or three weeks, I think.

David Dishon: By the end of February.

John Petticrew: By the end of February.

Graham Simpson: Does that mean that there has been a further delay and an increase in the cost?

John Petticrew: I have not been given the date yet, so I cannot comment on that now.

Graham Simpson: It is a simple question. Is the Glen Rosa being delayed further?

Andrew Miller: Can I answer that question?

John Petticrew: Sure.

Andrew Miller: Information is required to make a fundamental decision that the board and the enterprise can stick to over time. The past was characterised by timetables and money being put into the public domain through these committees, without due process and without having an understanding of the numbers or ensuring that the business can actually deliver.

Graham Simpson: I am going to stop you there, Mr Miller—that is waffle. I am asking you both a simple question: has the Glen Rosa been further delayed and is there an increase in costs? That is a simple question.

Andrew Miller: The answer is that we do not have the information to tell the committee at the moment.

Graham Simpson: You do not know.

Andrew Miller: No, it is not that we do not know. We are doing due diligence on the numbers, under the auspices of the board, and that is going to take another two or three weeks.

Graham Simpson: So, you do know.

Andrew Miller: No, we do not know.

Graham Simpson: You do not.

Andrew Miller: No.

Graham Simpson: You just said that you did know.

Andrew Miller: We have the data but we are verifying it.

Graham Simpson: What does the data tell you? Do you think that there is a risk of further delay?

John Petticrew: Yes, there is a risk.

Graham Simpson: There is a risk of further delay.

John Petticrew: There is a risk. We are trying to mitigate that risk and ensure that, if we come to the board and to the sponsoring party with a date, we will not then change it as we have done in the past.

Graham Simpson: Okay. You have identified that there is a risk of a further delay and what you want to do is go to the board and give them—

John Petticrew: A proper plan.

Graham Simpson: —an accurate answer about what that further delay is and what you intend to do about that.

John Petticrew: One advantage of the accountable officer being a separate appointee is that the AO—David Dishon—can challenge that if he does not agree with it. This is not a case of the person who is in charge also being the AO and pushing things through—I would just like to put that point forward. The responsibility of the group that is putting the plan together is to put it together in such a way that it can be financially interrogated by David's group and that we can give you not only a date but a true projected cost.

Graham Simpson: Are we talking about weeks of further delay, or months? I am not asking for an exact figure, because you will not give me one, but what do you think?

John Petticrew: I do not have an exact figure. That is why I cannot give it to you.

Graham Simpson: Is it weeks or months?

John Petticrew: I really do not know. We are looking at it—there are different scenarios. If you have been involved in scheduling you will know that you are sometimes given two or three options and that you interrogate them. The first option is obviously closer to the date that we have at present, which is September. That is what we are trying to push for.

Graham Simpson: Okay. So, you will attempt to bring it in by September.

John Petticrew: We will try to bring it in on the best date that we can.

Graham Simpson: There is a risk that it will not be September.

John Petticrew: Yes.

Graham Simpson: Okay, that is fine—well, obviously, it is not fine.

John Petticrew: It is not fine.

Graham Simpson: It is not fine at all, and it is certainly not fine if the cost increases.

John Petticrew: Agreed.

Graham Simpson: Following one of our previous meetings, there was quite a lot of publicity about the exit packages paid to FMPG employees, each of which has been valued at above the £95,000 threshold set out in the Scottish public finance manual. There were three of those packages in 2023-24, two of which were paid without approval from the Scottish Government. The question for you, Mr Miller, as chair of the board, is this: how could that happen?

Andrew Miller: One of the three packages directly under my control and the board's control was the package for the chief executive officer, which was approved by the Scottish Government. With the other two, there was a bypass of process and due diligence, in that they did not come to the remuneration committee to be reviewed. The decisions and payments were made by the accountable officer at the time, who bypassed the very strict governance rules of the remuneration committee.

Graham Simpson: That was Mr Tydeman.

Andrew Miller: Yes.

Graham Simpson: I will ask you about him in a minute.

There has also been coverage of a report called the accountability report, which is in your name, Mr Dishon. [*Interruption*.] We are still getting some feedback—perhaps that could be sorted out.

The report says that, during 2023-24, seven staff were dismissed for different reasons, which included poor performance and the yard's

"zero tolerance approach to alcohol and drugs",

and that all seven staff members received exit packages

"in line with their contractual requirements".

To me, that reads as though people were dismissed because they breached the company's policy on drug and alcohol use. Is that correct?

David Dishon: In some cases, yes.

Graham Simpson: How many of those seven staff breached the drug and alcohol policy?

David Dishon: I do not have that information, but I can get it for you. I will provide it after the meeting.

Graham Simpson: Does anyone know?

David Dishon: Yes. Human resources will know.

Graham Simpson: Do you know, Mr Miller?

Andrew Miller: I do not know the exact numbers, but I know the financial penalty for the company in exercising due control. The business has zero tolerance of drugs and alcohol, and it is only correct and proper that we exercise our due responsibilities in relation to that issue.

Graham Simpson: That is entirely right, but it strikes me that, if someone has been caught drinking or taking drugs at work, they should be dismissed. They should not get a pay-off. Why did those people get pay-offs?

David Dishon: In those cases, they would have got a week's notice.

Graham Simpson: A week's money, in other words.

David Dishon: Yes, a week's money. We are talking about people who were paid weekly, not salaried staff. I am sorry—they were hourly paid.

Graham Simpson: So, we are not talking about senior staff.

David Dishon: No.

Graham Simpson: Okay—we are getting there. Those people all got a week's money.

Let me ask about Mr Petticrew—I am sorry; I mean Mr Tydeman. I will ask you a question, Mr Petticrew, but we will come on to that.

Mr Tydeman was sacked last March for what were described as "performance issues". That is all that we have been told so far. Mr Miller, you were the man who did the deed. What were those performance issues?

Andrew Miller: I think that that is evident in the section 22 report.

Graham Simpson: Do tell me—repeat what it said. What were the performance issues?

Andrew Miller: The general umbrella for his dismissal was that the board had lost confidence in his ability to deliver against the financial parameters that had been set and agreed to and the timetabling parameters. It was a performance-related issue, and the board unanimously took action with regard to his employment.

You might have further questions on this, but we have discussed—[*Interruption*.] We are still getting feedback.

As has been discussed in relation to the section 22 report and the audit report by Audit Scotland, which is represented by the people behind me, there were some issues with governance and control of the business, whereby certain governance issues were bypassed by the board.

Graham Simpson: So, certain things were bypassed. For example, there is the stuff that was mentioned earlier—the payments that were made that nobody else knew about.

Andrew Miller: There is also the issue of the contracted employee who was seconded from another enterprise. I am sure that you will ask questions about that.

Graham Simpson: I will ask about that.

Andrew Miller: There was a list of issues.

Graham Simpson: Well, let us take that very example. Did that not come to light after Mr Tydeman left the business?

Andrew Miller: Absolutely. Three weeks after he left the business, David Dishon found out about those arrangements due to the improved internal controls, and he reported it to me. I spoke to our sponsoring divisions, and then David wrote a comprehensive report two or three weeks later, setting out that there was an individual in relation to whom the duty of care lay with the seconding company, and that had to be a consideration in the whole process. He was seconded as a contractor—that is, as an employee of CMAL—but David Dishon discovered some other elements in the process that were very distressing to the board. Indeed, some of the answers that representatives of CMAL gave at a previous committee meeting indicate that they support that opinion.

Graham Simpson: Before we come to that individual, I would like to stick with Mr Tydeman for a minute. Essentially, there were the governance issues that you have mentioned, but you have also said that you were concerned about him—to paraphrase what you said—losing control of costs and not delivering the ferries in a timely manner. Is that accurate?

Andrew Miller: Yes, but there were also issues around the general acceptance of governance processes from the board in terms of what has to be reported and what has to be discussed and the fact that he had bypassed some of the very sane and normal rules that you would have in an employment contract.

With regard to one-on-one reporting, you cannot hire or fire people one on one; you have to go to a governance body to get approval. The two people who were dismissed were dismissed in a way that bypassed the remuneration committee and the board, even though the process was clearly set out. There was some dialogue about what the accountable officer has the authority to do as the CEO; as the board improved its governance processes, some of those activities were discovered, and we had to take action.

Graham Simpson: Okay. Given that you had those concerns about Mr Tydeman's performance, I presume that you discussed them with him.

Andrew Miller: Yes.

Graham Simpson: Over a period of months?

Andrew Miller: Six months.

Graham Simpson: And what was his response?

Andrew Miller: Well, in one meeting, the dialogue got very heated, and the individual walked out of my office. This is normal day-to-day management. It should come as no surprise to the committee that, when someone is not performing or delivering, you need to have discussions with that individual.

Graham Simpson: So, Mr Tydeman walked out of the meeting. What were you discussing at the time?

Andrew Miller: We were discussing his performance in relation to the achievement of financial targets and of timetables and deliveries.

Graham Simpson: That is interesting and useful information. It sheds a bit of light on why you got rid of Mr Tydeman.

Andrew Miller: The matter is addressed in the reporting process through Audit Scotland, whose section 22 report alludes to certain behaviours that are not acceptable in terms of the professional performance of the CEO.

Graham Simpson: Well, actually, this is the first time that we have managed to delve a bit deeper into what the phrase "performance issues" means.

Andrew Miller: You have to understand that there are risks to the business, and our processes mean that, when these things turn up, action has to be taken. We do not inform committees as and when we find out that there is a performance issue over a period of time. The whole performance issue was discussed quite heavily with the sponsoring department, as is quite proper, and there was a unanimous decision of the board to take that action.

Graham Simpson: Mr Irwin, were you aware of those performance issues over the six months when those sometimes heated discussions were going on?

Gregor Irwin: Personally, I was not aware of the detail. Those are matters for the board to resolve. The Scottish Government was told by the board on 30 November that it was considering the future of the CEO, given performance issues, and we got a formal notification on 28 February that, following a unanimous decision by the board, it would end his employment.

Dermot Rhatigan might be able to provide a bit more information on the nature of our interaction with the board regarding Mr Tydeman, but the key point to underline is that this was a matter and a decision for the board.

10:15

Dermot Rhatigan (Scottish Government): You are correct on the dates, Gregor—those are the dates that we are talking about. People from the strategic commercial assets division are in the yard every week, so we have regular contact with David Dishon and either weekly or two-weekly calls with the chair. We would have been picking up on the mood music from the date that Gregor Irwin mentioned. I was aware that the board was having those thoughts and that it was reviewing the position, which ultimately led to the notification to us on 28 February.

Graham Simpson: I am not suggesting that you would interfere with the board, but you certainly should have been informed. It sounds like you were aware that there were issues, because there was a potential risk of a chief exec being given the boot—which is what happened. You would expect to know that that was coming.

Gregor Irwin: We were told on 30 November that consideration was being given to that.

Graham Simpson: Okay.

Mr Miller, given the history of the yard and what happened to the last chief exec, have you had any success in attracting somebody new?

Andrew Miller: It is a difficult job, and the required skill set is wide. Candidates who have that skill set are few and far between, so the ability to attract an individual with that skill set and who is capable of turning around the business is somewhat limited. As I have said before, we are not the most attractive proposition on the market, in terms of our ability to pay market rates in packages to attract the right skill set.

Before Christmas, we got very near to appointment of a new CEO: the candidate had signed his contract. I obviously cannot name the person, but he withdrew from the process two or three weeks before he was due to start, which was at the beginning of January this year. He probably looked at video tapes from committees such as this, in relation to oversight, and decided to change his mind.

Graham Simpson: Well, there is no use blaming us, Mr Miller.

Andrew Miller: No, I do not blame you. I am just sharing with you what actually happened.

That said, some market opportunities have been created with the downsizing of commercial shipyards in the UK and restructuring in relation to the acquisition of Harland & Wolff by Navantia. Luckily for us, that has raised some capability issues with regard to employees who might be looking for other opportunities. We are in discussion with one individual, whom I cannot name because he is still employed in his company. He has been interviewed by three people on the board, including the chair of the remunerations committee, and about two weeks ago I had a meeting with the individual for three hours to discuss the opportunity. He has some financial and contractual obligations to his current company, so I cannot reveal who he is. He has not signed a contract yet and wants to be seen as a good leaver, in terms of the financial constraints.

Graham Simpson: It is always best to leave on good terms.

Andrew Miller: Absolutely.

Graham Simpson: Are you hopeful that you will sign this individual?

Andrew Miller: I am hopeful. It is about painting a picture of the strategic future of the yard and where the opportunities lie. However, we have come up against a bow wave of media attention over the past six years since Government ownership came along. I do not want to re-emphasise the point, but it is quite a difficult proposition to attract the correct and proper person. I had the same problem with the board members, in terms of finding people who were experienced and had the right skill set to make a contribution.

Graham Simpson: I have one more question, which is for Mr Petticrew. You will be relieved that the company is about to sign somebody else and that you can go off and do something else. However, you were the subject of what you might think was unfair publicity about your expenses and travelling home to and from Canada. I want to give you the opportunity to put the record straight and to say what the actual position is. How many times have you been—

John Petticrew: I think that I put the record straight at the Net Zero, Energy and Transport Committee. When that publication came out, it inferred that I was travelling back and forth every weekend. That was not the case—I did not go home for nine and a half months. I went home at the end of October, at the end of my contract. The end of my first contract was in September. I asked for some more time and I stayed until October. I saw my family for three and a half weeks in nine and a half months, so the statement was incorrect.

It was a bit dismaying, because I did not want any focus on me. This is not about me—it is about Ferguson’s and the people who work there. I have tried to stay out of the press. My personal assistant said, “You’ve got to answer that,” I said, “No, I don’t.” I really would like to keep out of the press.

It is about getting work. I said to the NZET Committee, and I did not get into trouble for it, that I do not want to be a politician—I want to be a shipbuilder.

Let me be quite clear: if I did not have family commitments in Canada, I would take the job full time. Any decent shipbuilder would relish the chance to run a small shipyard like Ferguson’s and to get it back in line, with the co-operation of the sponsoring body. I think that the decision to buy it and to keep jobs going was the right one. Maybe we could have done a better job in relation to where we are now. My father was a shipbuilder who ran Inchgreen dockyard in Greenock. I am from Greenock. It is the last shipyard there. I have watched the rest of the shipyards go down the drain.

I guess that that is my soapbox speech. I really want the yard to be a success. I am not relieved, but I am glad that somebody is willing to take the opportunity. I am sorry if that was a bit long winded, but that is my feeling about it.

Graham Simpson: I am glad that you have had the opportunity to say that, because it is good to hear somebody speak with such passion about what they do.

John Petticrew: I am thankful to you for giving me the opportunity to clear that up, because what was said was used again later by a couple of individuals, even after it had been publicly shown that it was not correct. It is not a nice thing to have hanging over your head.

Andrew Miller: It would be a full-time job for four people to correct the reports that have come out in the media, especially on the social media side, through Facebook and LinkedIn. You give up after a while. You push back, but it is still reported in the newspapers—if people still read newspapers, although given my background, I know how that has changed over time. It is difficult. We try not to constantly correct people, because they print it anyway.

When the previous CEO changed his mind two weeks before he was due at the dock, one press reporter said, "I know who it is, and I'm going to put it in the paper. Can you confirm?" I said, "No, we can't, because he's not here yet. We will tell you when it happens". They were lucky that they did not print it: they took good heed.

It is a constant battle. One of the most damaging things to the future of Ferguson Marine is the constant drip feed of criticism. I am not talking about the committee, convener. Some of it is totally ill-informed and comes from spurious sources, which is a big frustration to me.

I had the same issue when I was chair of Glasgow Prestwick Airport Ltd, as Mr Greene will know. For two years, there was constant criticism, then when the business turned around and started to make money, there was no media attention whatsoever. I know that that is the course, and we have to keep correcting it. I would rather correct such issues at the committee and give John Petticrew a fair go at explaining himself. John has been a great gift to the organisation.

Graham Simpson: John has explained himself ably, so I will pass back to you, convener.

The Convener: In the interest of establishing some facts for the record, I have a couple of quick questions. I am hoping for quick answers, following the discussion that you have just had with Mr Simpson.

Mr Irwin, I think that you said that you were made aware on 28 February that the board was considering dismissing, or was going to dismiss, Mr Tydeman. That is at a slight variance with what Parliament was told by the cabinet secretary, who said that on 28 February she was told that the board was considering action. It was only on 18 March that she was informed that there was the intention to dismiss Mr Tydeman in the week commencing 25 March. Could you clear that up for us, please?

Gregor Irwin: Perhaps Colin Cook or Dermot Rhatigan could help to clear that up. Otherwise, we might have to write to the committee.

The Convener: Sure.

Dermot Rhatigan: What the cabinet secretary said was correct: that is the right version. We have not explained that properly. We would have been formally notified on 28 February about the process leading to the dismissal, but 18 March would have been the date on which we were told. What the cabinet secretary said was correct.

The Convener: Okay. "Yes" from the civil service is the right answer. However, it would be helpful if you could go back and clarify for us what was known and when, because that is quite important.

In a newspaper report Mr Tydeman said that he had no idea that he was going to be sacked—that it was almost a summary dismissal. If there was due process, it would be useful to have that put on the record, too.

Mr Irwin, when you gave evidence on 25 January regarding the secondment arrangement, you told us that there was no reference to the Ferguson Marine board. However, Mr Tydeman has told us, in writing, that he made Mr Mackenzie, who was chair of the board at that time—February and March 2022—aware of that arrangement. Again, is Mr Tydeman wrong?

Gregor Irwin: I have not seen that correspondence from Mr Tydeman. I would need to—

The Convener: It is published in the papers for the committee meeting.

Andrew Miller: I have read it. It is quite a detailed report, but it does not focus on the governance and decision-making arrangements of that secondment. I met Mr Mackenzie—

The Convener: Hang on a minute, Mr Miller. Mr Tydeman says that he consulted the then chair of the board, who was your predecessor.

Andrew Miller: There was a remuneration committee at that time, but its minutes show no indication whatsoever that it was consulted on that secondment.

The Convener: As the chair of the board now, if either the accountable officer, Mr Dishon, or the chief executive officer, Mr Petticrew, said to you, "I propose that we second somebody from another organisation on these terms", would you be duty bound to report that to the board, the remuneration committee, the internal risk and audit committee or some other sub-committee?

Andrew Miller: Both of those people can answer that question.

The Convener: No. I am asking you, Mr Miller, because it is clear—it has been stated several times, by various people—that Mr Mackenzie did not feed that in to the board or to the board sub-committee.

Andrew Miller: Robert Mackenzie was interim chair before I started. I can only go over written references to the remuneration committee and the board minutes. I saw no such indication there that that had been discussed.

The Convener: Had you been in his shoes at the time, what would you have done?

Andrew Miller: Let us be clear about the process. It is—

The Convener: No. I am asking you a direct question, Mr Miller.

Andrew Miller: I am giving you a direct answer. There is a one-on-one reporting process. I cannot hire or fire somebody who reports to me.

The Convener: Okay. So you would share that information and involve other people in that decision.

Andrew Miller: Absolutely.

The Convener: Okay. This will be my final point before I ask our deputy convener to come in. The other thing that Mr Tydeman said was about the arrangement whereby the individual who was on secondment set up a private limited company and so on. Mr Tydeman said to you, Mr Dishon, in February 2024 that he had questions about the IR35 assumptions surrounding that arrangement. Did he raise those with you at that point?

David Dishon: I do not remember that.

The Convener: You do not remember that.

David Dishon: No. I do not remember ever having a conversation with Mr Tydeman about an IR35 issue with Mr Crossan.

The Convener: Okay. You have made your position clear.

I will now ask our deputy convener to put questions to you from part 1 of his suite of questions.

Jamie Greene (West Scotland) (Con): I will spread my questions across two parts, because other members would like to come in.

Mr Petticrew, it is really good to hear of your passion for the yard. I know that you inherited what has, over the years, been a very difficult situation on the journey to deliver ferries. Anyone who lives, works or has roots in that part of the world will share your ambition to see the yard succeed. I hope that we will talk a little more about its future, in due course.

I will pick up on one or two things. I will talk about the budget and finances briefly. In our evidence session on 16 January, there was some confusion over some of the numbers involved, so I want to see whether we can clarify them—in particular, about the money that the Scottish Government has allocated to the yard.

10:30

The Parliament agreed to the general principles of the Budget (Scotland) (No 4) Bill at stage 1 yesterday. The draft budget has a line for Ferguson Marine of £47.9 million for the coming financial year. In addition, a statement was made last year about £14.2 million of capital funding being made available for—I presume—investment in and upgrading of the yard’s infrastructure. Perhaps sitting alongside that is a pot of cash to complete the MV Glen Rosa. We will come to that in a second.

Can we clarify the numbers? Does the £47 million or £48 million in the draft budget include or exclude the £14 million of capital expenditure? Will any money that is needed in addition to what has already been put aside to complete the Glen Rosa—it sounds like it might incur more costs—come out of that, or is there a separate pot of cash to complete the Glen Rosa?

David Dishon: I will answer that. Of the £46 million, there is £37 million of capital funding to complete the Glen Rosa and £9 million is set aside out of the £14.2 million for the financial year 2025-26.

Jamie Greene: Let us get this right. The budget, if it is agreed to, will allocate around £47 million to the yard, of which £37 million will be used to complete the Glen Rosa, and there is £14 million of capital money. Also, £9 million of the capital money will be allocated to the Glen Rosa. Is that correct?

David Dishon: It will not be allocated to the Glen Rosa: £9 million of the £14.2 million is for the upgrade of the yard.

Jamie Greene: Right. Where does the rest of the money go? Where is the delta between the £37 million and the £47 million?

David Dishon: The £47.9 million includes £1.9 million of resource funding and £46 million of capital funding. The £46 million of capital funding is split between £37 million for the Glen Rosa—there will be about £38 million for the Glen Rosa—and £9 million for capital investment in the yard.

Jamie Greene: So, the £47 million includes the £14 million. It is not in addition to it—just to make that clear.

David Dishon: It includes £9 million of the £14 million.

Jamie Greene: Perhaps you can write to us and outline that. We asked Audit Scotland about that previously, and there was a lot of confusion over the numbers.

David Dishon: The £14 million is over two financial years and the split is £9 million and £5.2 million.

Jamie Greene: What happens if Mr Petticrew crunches the numbers, comes to you and says that the second vessel will cost £X more? Do you have headway in the £47 million, or would you have to seek extra cash from the Government?

David Dishon: We would have to seek extra cash. The current capital is based on a forecast that we gave months ago, in time for budget approval. That was based on a September 2025 completion date and a fully loaded £150 million cost to complete. If it was to cost more, we would have to ask for more.

Jamie Greene: Let us segue nicely to the Scottish Government. Would that request be granted?

Gregor Irwin: We would look at it in the same way as we look at other requests that we have received from Ferguson's over the past years. We would scrutinise the request carefully and put advice to our ministers.

Jamie Greene: I presume that if it was a small figure, you could scratch around in the Government coffers and find it, but what if it was in the millions?

Gregor Irwin: That would be subject to proper decision making by ministers, on advice.

Jamie Greene: There is a track record of your having said to ministers that something is not value for money for public investment.

Gregor Irwin: An accountable officer assessment is done in circumstances in which there is a material change in the cost forecast. We would look at the different ways in which ministerial objectives could be met.

In this case, the focus would be on completion of the Glen Rosa, and we would consider what the best value for money options were to provide the services that the Glen Rosa would provide. That is the basis on which previous accountable officer assessments have been made, which have led to requests for written authority. That is the process that we go through. If it was a small amount that was easily within the tolerance levels that have been used in previous accountable officer assessments, the process would be more straightforward, but we would certainly always put advice to ministers and give them options.

Jamie Greene: Realistically, I do not think that anyone who is in this room or watching this meeting believes that, at any point, the Government would say no to requests for extra cash to complete the vessel. We are not simply going to stop the project, are we? Ministers want to see the vessel sailing away from Greenock finished. Can we infer from that that there is a blank cheque to complete the project?

Gregor Irwin: Ministers have been clear that they are very mindful of the economic importance of Ferguson's. They are also very mindful of the importance of timely delivery of the vessels, which are absolutely essential for island communities. Ministers weigh up a number of objectives when considering alternatives. Work on the vessel is considerably progressed—we are a long way through the build process. The question would be what additional cost would be required to complete it. Our job is to lay out the facts, to provide the evidence and to offer advice to ministers. We would do that in those circumstances—if they were the circumstances that we found ourselves in—as we have done at every step along the way, in the process.

Jamie Greene: In your opening statement, you said that the three pillars of being a good sponsor of a public asset such as Ferguson's are good governance, transparency and value for money. Which of those is demonstrated in the conversation that we have had today? We have heard numerous examples of poor governance and there has been a lack of transparency, with basic questions that cannot be answered. Certainly, value for money is out the window. The ferries were supposed to cost £97 million for the two, but we are now nudging towards £400 million of public money. Is that a complete failure on your part?

Gregor Irwin: We are doing everything that we can and are working with the yard in difficult circumstances to strengthen governance. We have found the Auditor General's report and his previous reports to be very helpful in doing that. A strategic commercial assets division has been created to provide rigour and discipline in work of this sort across the Scottish Government. We believe that we are making good progress, although we are very mindful that there are always challenges.

Value-for-money considerations concern forward-looking decisions. We have to give advice to ministers and do the calculations about value for money on the basis of the best available evidence. As you know, where appropriate, we subject accountable officer assessments to external scrutiny and due diligence, so that the assessments are not just the accountable officers' own working. We use expert commercial advisers to provide independent scrutiny. We are putting in place the best possible disciplines, and we have been doing that over a period of several years, drawing on the advice of Audit Scotland and others.

The situation remains very challenging. There is a lot at stake in relation to the future of Ferguson's, Port Glasgow and shipbuilding on the Clyde, and in relation to delivery of the Glen Rosa, which will have an important impact on the ability of CalMac to deliver high-quality services to islanders.

Jamie Greene: Absolutely. We all share that view.

I have a final question in this section, before I let other members come in, although I will come back later to talk about the future of the yard. My question is about a general feeling that I get from what I have heard this morning and from some of the other commentary that we have had.

Mr Irwin, you said in your opening statement that the failings were unacceptable, and I thank you for that. All the blame, though, seems to have been put at the door of Mr Tydeman, the former CEO, but he is just one of a number of CEOs who have been through the revolving door of Ferguson Marine over the years. This is just an observation, but I get the impression that he has been made something of a scapegoat for many of the long-term failings in delivering the project on time and on budget.

Andrew Miller: It would be naive to think that 100 per cent of Ferguson Marine's problems lie at Mr Tydeman's feet. There has been a long dialogue and a long process of people being appointed on an interim basis and on short-term contracts and people leaving. Mr Tydeman, in his two years as chief executive of Ferguson Marine, was not 100 per cent responsible for things that happened over the past 10 years—clearly not—and it was not my intention to create that opinion. You are correct: he is not 100 per cent responsible for everything that has happened over the past 10 years. All we are trying to demonstrate is that there is better governance and control and an understanding of the risks and impediments, for the future.

Let me give you one good example. Delivering sustainable long-term, cost-effective and regular services to the islands is really important. There has been a lot of disruption to the island communities, as you know, and many people, including me, have apologised for that. If you look at the control within what I call the troika of Ferguson Marine, CMAL and CalMac—the operating company—those three sides of the triangle are under different ministers and different rules of governance. Each component of that triangle is following its own specific objectives with regard to a framework for delivering sustainable value.

When I look at the whole thing, I ask, "Well—where's the one point of governance?" It is an important question, and it is where I get great value from the committee. When I look at Mr McMillan, I see £138 million of gross value added being delivered to his community through Ferguson Marine. That is a substantial sum. Also, we employ slightly more than 300 people—a substantial workforce. The yard has had problems for a long time now, having gone through two receiverships and so on. It is not a prime asset, and the Government stepped in—quite rightly, I think—to protect jobs and the economic value in Mr McMillan's community.

However, to go back to the convener's question about the tendering process for the small vessel replacement programme, if you look at the objectives of the three individual companies within the enterprise, you will see no value being attached to the local community or to the employment of 300 people—there is no social value in the tendering process, which is heavily weighted towards best value for money, although it is quite right that it is.

However, if you follow that best value for money route, you will see that no Scottish shipyard—indeed, no UK shipyard—could deliver at the price at which some of our worldwide competitors can deliver. Therefore, we need due recognition of the value to the community, of the employees whom we employ and of the business's long-term future, but—quite rightly—within a fiscal envelope and budget within which we can deliver.

However, the competing parts of the triangle when it comes to governance and delivering value for money are sometimes in conflict with one another. I have raised this in the past: we need to have an even platform that allows Ferguson Marine to compete for construction of ferries in a fair and open way. That is what we are trying to do. It is probably beyond the governance of this committee, but that is my position. We need to sort the matter out.

Jamie Greene: I am sure that Mr McMillan is more than capable of agreeing with many of those points, and I am sure that we will hear some of them from him. As someone who lives in Greenock, I agree with many of the points that I am sure that he is about to make, but that is not the point of this committee, and it is not the point of the Auditor General's work. That specific work, rightly, involves holding to account senior civil servants, ministers and people who run enterprises that are owned by the public, funded by the public and paid for with taxpayers' money. We are entirely doing our duty in that respect.

Andrew Miller: I agree with you wholeheartedly, but there is a big strategic picture that we have to fix.

Jamie Greene: Absolutely.

Andrew Miller: Why should the Government save jobs and save Ferguson Marine but not allow it to compete and tender for contracts in a fair and equitable way that pays due regard to the employment statistics and to the £138 million that is created in Mr McMillan's community? That is my point.

Jamie Greene: That is a nice segue into colleagues' questions about the future of the yard.

The Convener: Those waiting with bated breath for Stuart McMillan's thoughts on these matters will have to wait a little bit longer, because I am going to invite Colin Beattie to put some questions to the witnesses.

10:45

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to look at a couple of areas of governance and internal control, some of which have been touched on already. I think that it was Andrew Miller who said that there had been no internal control within the company. I have two questions about that. First, was there previously internal control, which was dismantled? Secondly, is it an industry norm not to have internal control?

Andrew Miller: It is not the norm not to have internal control. There was a loose approach to internal controls, which David Dishon shared on his appointment first in an interim role and then as the permanent finance director and accountable officer. The tightening up of the board's governance procedures and internal audit controls and the appointment of BDO are all part and parcel of tightening up processes, so that there is more transparency in the business.

Colin Beattie: When you say "tightening up", does that mean that those internal controls were not in place when FMPG was formed?

Andrew Miller: Are you talking about since the Scottish Government took ownership or are you going back further?

Colin Beattie: Were internal controls in place when FMPG was formed?

Andrew Miller: I have been there only for the past year, but my view is that the internal controls were somewhat weak. For the past two years, we have been working with various people around this table to try to improve the internal controls so that there is more transparency. A good example is that we do not pay an invoice now unless we have a purchase order. What percentage of invoices now come in for which we do not have a purchase order?

David Dishon: Hardly any—one or two.

Andrew Miller: When you joined, what percentage would it have been?

David Dishon: We were getting hundreds a month. We did not really have purchase orders; it was indiscriminate whether that happened. The process has now been tightened up. Much to my chagrin and that of those in procurement, every invoice, including any overheads and even those relating to utilities, has a purchase order. If a contract is re-signed, a purchase order is needed. There is a process for team approval, and a budget is allocated in that regard. That was not the case previously.

Colin Beattie: Those seem to be fairly basic functions in any business. I am trying to establish whether, after FMPG was formed, there was a point at which internal controls were discontinued, or whether no internal controls were inherited.

David Dishon: I have been in position for only a year, but, according to my finance team, who have been around since the Ferguson Marine Engineering Ltd days, the situation was indiscriminate. There were times when there were things such as purchase orders and committees, but the sub-committees did not exist when FMPG took over from FMEL.

From speaking to people who were there, I would say that internal controls were not really in place. I do not think that it was a case of such controls being dismantled; the internal controls that there were probably just drifted away, and some were just not there at all.

Colin Beattie: Given the lack of internal controls, I believe that you have appointed an external company to provide the internal control function.

David Dishon: Yes. We have appointed BDO for internal audit.

Colin Beattie: Is that different from the company that is doing your overall audit?

David Dishon: Yes. Audit Scotland does the external audit.

Colin Beattie: Of course.

What have you done to change the way in which the weaknesses in governance that were identified are being managed? All sorts of issues have come out in the audit report and before that. How do we know that what happened will not happen again? Is internal control now at a point at which it is doing its job fully and reporting back fully? Are all the investigations and so on being completed?

Andrew Miller: Before David Dishon replies, I will say that it is not a switch that is either on or off; it is a gradual process of getting control of the business. A good example was the purchase orders, and there are many other good examples, but it is a process of improvement. Over time, we will get to the right level of governance and lower the level of risk in how we pay third-party contractors and manage costs in the business. It is a case of constant improvement.

Colin Beattie: Internal control is not just about managing the costs in the business and the payment of bills. It is much wider than that.

Andrew Miller: Yes.

David Dishon: There has been a significant increase of internal controls in the past 12 months. The engagement with internal audit is now stepping up to a far greater level across the business, not just in relation to finance or support staff—it is operational. We have a detailed corporate risk register and project risk register, so there is a risk register for the Glen Sannox, the Glen Rosa and any other project that we do, and there are regular risk meetings.

As the chair said, we have four sub-committees that meet regularly. One is the audit and risk committee, which is very strong and goes through external and internal audit. Those involved in external and internal audit attend that committee every two months.

Colin Beattie: Who chairs that committee?

David Dishon: A non-executive director who has a background in audit and risk.

The convener asked a question earlier about what would happen if I or Mr Petticrew asked the chair about remuneration, which we did around Christmas. The chair would say, “You know the process. I’ll let you go ahead with the process.” That process is through the remuneration committee and then the board. We have a very structured approach in that regard, and it is in line with Scottish public finance manual. As you will see when the minutes for the November board meeting are published, I have written and presented to the board with the highlights of everything that the board needs to understand in relation to the Scottish public finance manual, including things such as exit payments, to make sure that the board is aware of its duties. We have strengthened the process significantly.

Colin Beattie: I hear from you that things are being strengthened and are moving in the right direction, but at what point do you expect to be fully compliant in relation to internal audit?

David Dishon: It should be in the next 12 months. We are on track to deliver all six of our internal audit reports for this financial year. The audit will go to the end of June. I will also have in place an audit and risk manager who will be able to help me to take over risk registers and the liaison with BDO. As soon as that person is in place in the next six months, we will be fully compliant.

Colin Beattie: Remind me—when did the process start?

David Dishon: Do you mean with BDO?

Colin Beattie: I mean the process of making the internal control function fully operational and effective.

David Dishon: BDO came in two years ago. I have been in post only for a year. Engagement with BDO started in the past 12 months.

Andrew Miller: It is a good question but, like all good questions, it is difficult to answer it.

Colin Beattie: You started approximately a year ago to put all the building blocks in place to bring internal control up to a satisfactory level. I am not clear whether you are telling me that you still have 12 months or six months to go to complete that.

David Dishon: It will probably be about six months. Your next question might be whether 18 months from start to finish is acceptable—

Colin Beattie: It is a long time.

David Dishon: It is, and I understand that, but we are talking about a culture change across the whole organisation. It has been very difficult over the past year with disruptions, the senior manager leaving, changes to process, a different chief exec, the focus on delivering the Glen Sannox and a focus on the future of the yard. It has been all about bandwidth capability to try to get this over the line and get a full culture change. I take your challenge that 18 months is a long time, but that is as quick as we can do it.

Colin Beattie: How many staff have you got?

David Dishon: Under me?

Colin Beattie: In total.

David Dishon: In total, we have about 290.

Colin Beattie: That is not a huge number. Crudely speaking, when we look at what needs to be done with internal control, I would say that 18 months to change the culture of a relatively small company does not seem ambitious.

David Dishon: Well, we are 12 months in. Over those 12 months, for all the reasons that I have mentioned, a huge amount of work has had to be done. In the next six months, we will be there.

Colin Beattie: Okay. We will take it that, in six months’ time, you should be fully compliant in all respects.

David Dishon: I would say so, yes.

Colin Beattie: Good.

A revised framework agreement is in place. What relationship do you have in that respect with the Scottish Government sponsor team?

David Dishon: What relationship do I have?

Colin Beattie: Yes. You have an updated framework agreement, which was approved by Scottish ministers back in July 2024, and there is an expectation that FMPG will comply with it. Where are you on that?

Andrew Miller: The first point to make is that the updated framework agreement was developed between the sponsoring department, the gentleman to my right and the board. The previous framework agreement was well out of date, and it referred to a different governance arrangement with the Scottish Government—indeed, it referred to a different department. The strategic commercial assets division was formed, and we had to pay due regard to the framework agreement and get it changed in some areas. A level of control and understanding about the commercial nature of our business—rather than that of, say, a civil service department—was fundamental to the levers that we needed to develop the long-term vision of the business.

There was liaison between the company and the department long before David Dishon came along to get an agreement that both parties agreed to. It was a significant amount of work.

Colin Beattie: Do the sponsor team attend all the board meetings?

Andrew Miller: They attend as observers. There have been a couple of board meetings where nobody has come along, but they attend as observers—one at a minimum, sometimes two—so that they are fully aware of what is going on. As Gregor Irwin said, the team do not take part in the decision making of the enterprise, but at times they give advice. They are not decision makers, but we want to know that they are fully aware of the agenda and what we are covering at board meetings.

Colin Beattie: Does FMPG ever refer to the sponsor team?

Andrew Miller: What do you mean by "refer"?

Colin Beattie: Does it refer an issue or something that it has concerns about?

Andrew Miller: A good example is one that we have discussed before—that is, the performance of the CEO. We referred up front, at the end of November, the board's concerns and took the team's advice. I have responsibilities under the framework agreement to talk to the sponsoring team before I or the board can make the decision to fire the CEO, but the team's contribution during that decision making was helpful. Their job was to talk about the compliance issues in relation to what we were trying to do, and our job was to get the maximum performance out of the role of the CEO, as we have done with John Petticrew's input for nearly the past year.

Colin Beattie: The sponsor team supported your decision to dismiss the CEO.

Andrew Miller: Yes.

Colin Beattie: They did.

Andrew Miller: Yes. The team could have stopped that if they do not agree with the board, but that would be highly unlikely because we have a very good working relationship, and the sponsor team could see some of the signs that the board saw.

11:00

Colin Beattie: To go back to the framework agreement, it would appear that it implies that the principles of public sector pay policy should be adhered to, but you are not obliged to do so.

Andrew Miller: Yes.

Colin Beattie: What are the expectations of the Scottish Government in relation to FMPG aligning with public sector pay policy?

Gregor Irwin: Is that question addressed to me?

Colin Beattie: Yes.

Gregor Irwin: Those expectations are as set out in the framework agreement. There is no obligation to comply with the policy, but there is an expectation to align with it. There is a recognition that Ferguson Marine is a public body that operates in a commercial environment. The chairman has already referred to the challenges of recruitment, including to the position of CEO, although it is not just an issue at that level; that applies elsewhere in the business. We are mindful of that tension. As we did the work to reach agreement on the revised framework agreement, that was the approach that was agreed.

Dermot Rhatigan or Colin Cook might be able to say something about how that works in practice, if that would be helpful, but the framework agreement is always the document to go to, to understand the basis upon which we interact.

Colin Beattie: Given that FMPG has no obligation to comply with it, is there any aspect of the public sector pay policy that you are complying with, or is the approach entirely driven by private sector levels of pay and so on?

Andrew Miller: Due regard is paid to certain principles. When I was last before this committee, there were lots of questions about incentive payments and bonus payments. Over time, through two administrations, some people were transferred across with their employment contracts under the Transfer of Undertakings (Protection of Employment) Regulations 2006. They were not set aside during the various ownerships, which gave us some short-term performance. We do not pay incentives or bonuses as part and parcel of that principle. However, the governing principle of attracting the best person into the job from a commercially active market, which is dominated by military work through the Ministry of Defence, means that we have to pay salaries. Nobody will come to Ferguson Marine and take half the salary that they are currently getting. We must have due regard to that.

We do constant benchmarking exercises through the remuneration committee that sets out our competitors' positions on remuneration. That does not apply to the board. The board of non-executives is appointed by the minister, and we are subject 100 per cent to public pay policy. We have a daily rate, which is standard for a tier 3, a tier 4 or whatever it is. We adhere to that. We cannot issue share options and we cannot issue bonuses as part and parcel of the new contracts, but we did have some cleaning up to do, let us say, because we had to respect the employment law of the land. The discussion was on whether that set us a precedent over the framework agreement—the law comes first and objectives come second.

That gives you some granularity around that. Under my stewardship over the past two years, no employees have been taken on who have had performance or retention elements to their contracts, as we recalibrate to the general policies of the public pay policy, with the exception of the rate that we have to pay.

The public pay policy says that the probation period is three months. What does the market tell us? Sometimes it is a year, and sometimes it is six months. Are we going to attract the best person for that job if we give them a three-month notice period? Absolutely not. That is where we have to follow the commercial dimensions rather than the public policy dimensions. However, we pay due regard and due heed to the latter. In fact, the Government was consulted on the current contract for the new CEO.

Colin Cook: The joint framework agreement specifies that FMPG has to align with the principles in the public sector pay strategy. It addresses some of the points on bonuses, tax avoidance schemes and affordability within the overall envelope of the budget, so it is detailed.

Colin Beattie: Let me bring the witnesses back to an aspect that has been mentioned before, which is the two exit packages that were not approved by the Scottish Government. That is my understanding—that it did not retrospectively approve those. What are the implications of that for the company?

Andrew Miller: A rap over the knuckles. I would not expect the sponsoring body to condone behaviour such as approval of something that has already happened, which has bypassed the governance rules. As I said, that was done without reference to the board. When the board found out, it took action.

Through David Dishon's reporting mechanisms, both to Audit Scotland and internally to the board, we were aware of those two instances after the event. However, there were broader considerations than those two individuals. I will not mention names, but some of them were appointed without taking references from their previous employers, and decisions were made without due regard to process. One of the individuals who was mentioned did not even last seven months in the enterprise.

Colin Beattie: I would like to ask Gregor Irwin about that. It seems pointless not to approve such a package retrospectively if there is no real penalty.

Gregor Irwin: We are clear that what happened is unacceptable, and that message was made very clearly. We absolutely cannot have that being repeated. The focus has been on the steps that need to be taken to ensure that, and to provide assurance to me and others that, that will be the case. Some of those steps have been referred to already, but they include a requirement that all settlement agreements should go in advance to the remuneration committee before approval. Any settlement agreement above the £95,000 limit that applies as part of the pay policy needs to be agreed and signed off by the remuneration committee, then the board, and then it goes to ministers for approval.

Other steps have been taken, some of which have been referred to already in response to other issues that Audit Scotland identified in its report. It is not just about recognising that something is unacceptable and requesting that it does not happen again; it is about working with the board, the sponsorship team and the leads to understand what steps the board and the management team propose to take, and to get assurance that we are confident that those address the issue.

The Convener: I am now going to invite Stuart McMillan to put questions to you.

Stuart McMillan (Greenock and Inverclyde) (SNP): Thank you very much, convener. Thanks, too, for the build-up earlier.

I want a couple of points to be clarified before I get into the main thrust of my line of questioning. At a meeting of the NZET Committee in early January, Jim Anderson spoke about a lessons learned document that was to be published by the end of January. This morning, there was some dialogue about documents. Is that the same document, or are they separate? Clearly, the lessons learned from the MV Glen Sannox and the MV Glen Rosa projects are hugely important.

John Petticrew: The sponsoring committee is doing a lessons learned exercise on its own, CMAL is doing a similar exercise at its facility and we are doing our exercise. We will all share the lessons that we have learned. We could provide the committee with the diagrammatic presentation that we are doing internally. However, because it will take a while to do that we are currently considering big-ticket items such as the liquefied natural gas elements. The LNG fabrication and installation have started considerably earlier than we did on the Glen Rosa.

We are doing that, rather than sitting round waiting for that document. It will take a while to put it together, because there are a vast amount of items on which we must ensure that we do better going forward. We need to make sure that the anchor works at an earlier stage, so that we do not end up with the fiasco that we had previously.

Does that make sense?

Stuart McMillan: Yes. That is helpful.

My second question goes back to the points about Mr Tydeman. At the same meeting of the NZET Committee, at column 37 in the *Official Report*, Kevin Hobbs was asked questions regarding the agreement to second Andy Crossan to Ferguson's. Mr Hobbs referenced you, Mr Dishon, and said that you questioned him. We have information in the section 22 report, from paragraph 29 onwards, as well as the information from Mr Tydeman, which was touched on earlier, in which he says that the arrangement was

"approved by the chairman ... at the time."

I accept that that was not you, Mr Miller.

Andrew Miller: No, and I—

Stuart McMillan: Let me pose the question first.

I genuinely think that it would be useful to get an absolute timeline of events. The Audit Scotland report states that

"The investigation identified that the former chief executive approved the ... payments without the knowledge of the board or the remuneration committee".

However, according to what is in the *Official Report* of the NZET Committee meeting, there was an actual written formal agreement. If there was a formal agreement between CMAL and Ferguson's, I do not understand why the Audit Scotland report would say what it has said. It also does not seem to tie in totally with what Mr Tydeman has said.

David Dishon: There was a formal agreement between CMAL and Ferguson Marine for Mr Crossan to come over and work for a period. I have all this in a timeline in my report. There was a period where, when that secondment happened, there was a top-up. Mr Crossan became a Ferguson Marine employee as well, to top up the CMAL salary. There was an arrangement and a contract under Ferguson Marine—that was fine—and then that was increased. That was in March 2022 and, in June 2022, it was increased.

The problem came in December 2022 when a secondment agreement was still in place in the background and, as far as the remuneration committee, the FMPG board and chair and so on and CMAL were concerned, that was still in place and Mr Crossan was still a Ferguson's employee. That did not happen—he changed to being a self-employed contractor in December 2022, without the knowledge of the Ferguson Marine board, the remuneration committee or CMAL. There was no contract in place for that.

Stuart McMillan: According to the information that Mr Tydeman sent, the revised contract up to £54k was in June 2022.

David Dishon: Yes.

Stuart McMillan: Then the self-employed contract was in December 2022.

David Dishon: That is correct.

Stuart McMillan: According to Mr Tydeman, those two things happened at the same time—there was an agreement at the same time for them to happen.

David Dishon: The upgrade for the Ferguson Marine salary was agreed in June 2022, but the December 2022 change was not agreed.

Stuart McMillan: Okay.

Clarity is lacking regarding the five-week holiday period, which has been touched on, so I have some questions about that.

David Dishon: That was in December 2022 to January 2023, when Mr Crossan first started his self-employed contract. I can give you a timeline for that.

11:15

Stuart McMillan: If you can send it over, that would be very helpful.

I have a final question, which is about the board. At the committee's previous meeting on the issue, I asked about the fact that the board meets six times a year. To go back to an earlier point that you made, Mr Miller, I suggest that you were a wee bit conservative to say that there has been media coverage of the yard for six years, because clearly it has been 10 years plus—

Andrew Miller: It has indeed. It is like raising a child and physically abusing it, and then expecting it to turn into a well-rounded man—it is very difficult to do.

Stuart McMillan: With regard to the board, in your time as chair, has meeting every two months been enough?

Andrew Miller: That point has been raised before; indeed, Mr Beattie raised it at a previous PAC meeting. Let me make it clear that the board used to meet about 10 times a year, but the number of agenda items that had to be filtered through the main board was too much, given the clarity and attention that the items required. We therefore set up a process of developing sub-committees, one of which was on health and safety. I was appalled to find out that the board had no health and safety independent governance committee, so that was instigated.

It required two days' worth of board meetings—one day of sub-committee meetings and then the next day for the main board meetings—to skinny down the main board meetings through approval of the sub-committees. We actually doubled the amount of time that the non-executive directors were applying to the job. We also had to take into consideration how far some of the non-executive directors were travelling for one day.

I am not in favour of constant team meetings, but I will add two things to that. The first is that I meet for between 60 and 90 minutes every month one-on-one with the non-executive directors, to get their personal views into my head. The second is that we do a catch-up call on Teams between the board meetings to discuss progress on the outcomes of the previous board meeting. We also have a discussion as a group, of up to two to three hours, on the agenda items for the next board meeting and on the papers that we want the management to prepare as part and parcel of the agenda. The agenda is agreed four weeks before the board meeting. Everybody in the management team knows the requirement to produce papers for the main board, but we take papers from the sub-committees. That is the cycle.

I would say that three times the amount of attention is given to the enterprise through that process.

David Dishon: I would also add that John Petticrew and I are in Andrew Miller's office every week and we have regular one-to-ones with our sponsor non-executives—I have a weekly one with my non-executive director. Also, things do not wait until the board or committee meetings—we have regular emails and Teams calls.

Stuart McMillan: It might be useful for the committee to have a timeline. Clearly, the board meetings are online, and another three will be put on the Ferguson's website. However, it would be useful for us to see a timeline for the committee and sub-committee meetings so that we can have a better understanding.

Andrew Miller: Would you like the dates for the next 24 months?

Stuart McMillan: If possible, yes.

Andrew Miller: Yes—they are all in everybody's diaries.

John Petticrew: We can also give you the mandates of those committees.

Andrew Miller: Yes—their terms of reference.

Stuart McMillan: That would be helpful. Thank you.

On the future of the yard, Mr Petticrew and I have had a number of discussions in the past and I think that we share the same view on the yard's past, present and future.

John Petticrew: I think that everybody round the table shares the same view, to be frank.

Stuart McMillan: The Ferguson's business plan refers to a direct award of the small vessel replacement programme. I wanted a direct award, and I think that we all wanted that but, obviously, the Scottish Government did not do that, because of legal advice on the legislation that is in place—the UK Subsidy Control Act 2022. Was it wise for the business plan to refer to a direct award for the yard to do the work?

John Petticrew: I think that it was wise, because if we had said that we did not want a direct award, that would have given the Government a reason not to give us it. That was the thinking behind that. Even without the direct award, we think that we are in good standing with regard to the bid.

David Dishon: With regard to direct awards, the last one was about accelerating SVRP 2 to get a direct award. If that did not happen, we had a fallback of other tenders that could be put in place. The timescale for each of the individual years was such that, if one tender was not won, there was another that we were looking at. As the chair has said, this is the most buoyant that shipbuilding has been, and there is a lot out there that we can go for.

Stuart McMillan: With regard to the condition of the yard, I have been in it many times over the years, and I think that it is fair to say that it was a working museum. The condition that it was in due to the complete lack of investment for many years made it a relic of a bygone age, to be quite frank. Notwithstanding the investment that has gone in and which has been touched on today, including the £14.2 million in next year's budget and the £9 million being put aside from that, it is fair to say that additional and on-going investment will be required to bring the yard to a place where it can compete globally to win work. Would that be something that you would consider?

Andrew Miller: It is a very good point—you are 100 per cent right. When the business was acquired for a pound—quite rightly, to protect skills and jobs—I 100 per cent agreed with that. The business had two contracts, which, as everybody knows, it struggled to deliver on time and on cost—let us not go over the history of that. However, one thing that the business did not get six years ago was a strategic plan outlining the future of the yard beyond the two ferries, which—in some cases, quite rightly—were consuming a lot of the time and attention of the board and the management.

We have been trying to pull that narrative into the future, with substantiated data to articulate the dialogue of what the business needs to do over the next 10 years. That is part of the strategic document—which is not in the public domain, because we are going to take a couple of months to sign it off through due process. The document looks at the skills base in the yard, the yard's history, and the money on the table—that is, the market opportunity. We have done that for the next 10 years, and it has been scrutinised by external advisers, because there are commercial market operator and compliance issues et cetera that we have to work to.

I do not share any bitterness with regard to the sponsoring department. It has to act within the law, although in certain domains outside Scotland, there seems to be a more relaxed environment than is being applied under the Scottish jurisdiction. However, we will get there. The document highlights the opportunity and the value in respect of our skill sets in the future; it will take another couple of months for it to clear the process, and then we will be at liberty to share it.

There is no lack of money or opportunity out there. It is a process of investment and of paying attention to our specific knitting, as it were, which is what we need to do.

Stuart McMillan: On the small vessel replacement programme, the consideration is 60 per cent quality and 40 per cent price—

David Dishon: It is 65 to 35.

Stuart McMillan: I took the 60 and 40 per cent figures from the official report from the—

David Dishon: Right. I apologise, if those are the figures. That is the ball park.

Stuart McMillan: Absolutely.

Clearly, best value is not about what is going to be the cheapest; it is about—

Andrew Miller: I alluded to it earlier when I went into my strategic dialogue about producing effective capacity and a route network for the ferries to sustain those economic communities. I am talking about not just social access but economic development through what is exported into the Scottish territory and beyond, such as whisky, and through tourism.

We are not playing on an even field. No shipyard in the UK—not even the best and most professionally managed business—can hit the prices of overseas shipyards. It is impossible. They all work to different standards and pricing. I will not name the country, but how can a business in a country where domestic inflation is running at 46 per cent produce a contract at a fixed price over a three-year period? How can they do that? One has to question whether they are playing with the same bat.

You might say that that is why there is no commercial shipbuilding left in Scotland. Why are we left with Ferguson Marine? That is a good question. It is our job to try to work around some of those issues. However, from a governance point of view, I do not like having three organisations pulling in different directions, because it destroys value for the Scottish economy.

Colin Cook: As Mr Miller said, the board has been working on a future strategy for the organisation, and has engaged me and the team as part of the consultation process. We are very encouraged by the reputation that Ferguson's still seems to enjoy among parts of the shipbuilding industry for being an expert in building small ferries. That is a good basis. The board has looked comprehensively at the market, and I think that it has a clear idea of the kind of business that it can go for. As Mr Miller said, once that strategy is confirmed, it will translate into a business plan. We will be able to do a full assessment of that business plan, then confirm the investment that will make that business plan happen. That is what we would expect to happen over the next few months.

Andrew Miller: There is an important process—the same old process—that the document has to go through. If we were a private independent company, we would go to our shareholders or other investors in the market to back the plan, which is a robust 10-year plan. However, that is not possible under our current governance. I do not complain about that, but I do complain about our ability to have an even playing field that develops the future of the yard. When the biggest customer of Ferguson Marine is its owner, that gripes me somewhat.

Stuart McMillan: When it comes to investment and what you want to do going forward, what are the initial steps? Are you at liberty to indicate what the £9 million would be invested in? Would it be in plant?

John Petticrew: David Dishon has broken that down and it is available—we can give that to the committee. Initially, though, we are going to take the legacy issues that you talked about, such as the electrical systems, and appoint a project manager, so that that gets managed. We will then have to set up a reporting system to report back to the sponsor, through David Dishon’s group, how that money will be spent. The money will not be spent willy-nilly; it will go through a process in which we get approval, which is what I am used to in any company.

Some members of staff have been visiting manufacturers—we are trying to make it local manufacturers. We need to identify to the sponsoring body the long lead items—the things that will take six months, nine months or a year to acquire. When we went through that process before, we found that it would take one year to get a panel line. We took three months to make a decision on what panel line to get, so that one year became two years.

We have to remember that major shipyards such as Harland & Wolff are doing major upgrades. They are in line for those things. Shipyards around the world, specifically in the middle east, can throw money at it right, left and centre and get in front of us.

We will also look at upgrading David Dishon’s reporting system, the information technology system and the time and attendance system so that, when you ask us questions, we do not take months to answer but can press buttons and have machines do it.

I will hand over to David. He might want to elaborate on exactly where the moneys are going, because that is part of the business plan.

11:30

David Dishon: Yes, I can give a full breakdown. The money is for things such as jigs and cranes, as well as the electrical systems, tools and equipment and training. There is a full breakdown of the capital expenditure.

Because of the value of some of those items, they will have to go through the public contracts Scotland portal for full tenders to demonstrate best value. There might be three or four jig manufacturers and doing that will ensure that we can get the best value and get them to sharpen their pencils.

We will go through due process. We have set up a purchase order—a separate project code—for the money so we will be able to ring fence it and get proper approvals to say whether a proposal fits the capital expenditure criteria.

John Petticrew: Some of the machinery, such as a panel line, will come with the improvements that you would expect. I use the panel line as an example because that is the one that everybody uses but, to be honest, it is probably the least important. It is about all the small, peripheral things.

The union has been in all the meetings about the flow of the yard, because it was dismayed by some of the modifications that were made previously and did not particularly agree with them. Alex Logan is involved, as are some of the apprentices and tradespeople—there is yard involvement in that. When we come to a final decision on how the yard will flow, they will be part and parcel of that. However, emotional decisions have to be made to take us into the 21st century.

We will also take people from the yard to some other automated yards and take advice from other major shipbuilders on what we should and should not use. There is a tendency to buy the iPhone 7 when the iPhone 8 is coming out tomorrow. We want to ensure that we get an iPhone 8, not an iPhone 7 and do not buy something that will be outdated the next day.

I use that example, but it is probably the iPhone 42.

Andrew Miller: It is the iPhone 18.

John Petticrew: I use that example because you all understand that, every time you buy a phone, the new phone comes out the next week.

A lot of due diligence is going into the process. We have had a commitment from the Deputy First Minister and we need to get our act in gear and get going.

Stuart McMillan: Mr Irwin, do you want to comment?

Gregor Irwin: Yes. I hope that you can take some reassurance from the fact that detailed planning work is under way to ensure that everything is in position so that we can proceed when we are able to proceed. We need to align the nuts and bolts of what is required for the investment with the strategy and the business plan. We have provided support for that. Intensive business planning work, to which Colin Cook alluded, was undertaken in the first part of this year. We have provided financial support for that.

Ministers have signalled their intention to make the investment. They are absolutely committed to the future of the yards. The investment needs to be subjected to commercial due diligence because we have to comply with the subsidy control framework. The test is the commercial market operator test, which literally requires us to provide evidence that the proposed investment is the sort of investment that a commercial market operator would make in the same circumstances.

Providing that evidence requires us to engage with external due diligence so that we can do that in the right way. We are absolutely not trying to put in place steps that are not required. We are doing what we can to ensure that the decision is taken in a way that is compliant with the subsidy control framework. That allows the investment to be made with work having already been done to try to get ahead of some of the long lead-time items alongside the work on future commercial opportunities for the yards.

Different groups are working to bring that together in the right way, but it is not in our interest to do it in a way that is then subjected to legal challenge, because that, in itself, would create a layer of uncertainty for the yard, and we do not want to do that; we want to crack on and make sure that we have all the pieces in place.

John Petticrew: If you thought that I was alluding to our buying bits and pieces, I can say that we are not doing that; we are just trying to produce information to coincide with exactly what was just said.

You mentioned the rigour of the board. Last Wednesday evening, the day before the board meeting, we had a four-hour meeting to discuss the strategy document. That was over and above what we talked about at the meeting.

The strategy document is a very fine document. It alludes to what we can do and what is potentially there—it does not just say, “There are lots of ships to build.” It has been produced by people who know what they are talking about.

Andrew Miller: I would add, by way of granularity, that we have looked at the business in terms of what you might consider to be failings in delivery. I talk about the intellectual property end of the business: systems and procedures and propulsion, which was not inherent in the skill space of the yard. Looking to the future, we have had some discussions with enterprises to look at partnering to acquire that IP so that we get into a ready state a lot quicker than we would on our own. That is important because, let us face it, there has been 30 years of lack of attention in the yard, and the situation needs to be addressed quickly. That is what we are trying to do.

Stuart McMillan: I think that that 30-year figure is an underestimate, but what you say is positive to hear.

The one thing that is missing is work, in the form of orders. We will see what the situation is with the small vessels by the end of March. Clearly, we all want that work to go to Ferguson’s. There is also the SVRP 2 project, which involves three vessels. What else is in the pipeline? There was the BAE Systems work.

Andrew Miller: There is work. There is one contract that is close to our heart, but, because of confidentiality, we cannot mention the company, which involves a private individual, as it has not signed the contract. However, with a fair wind, that should be signed in March. John Petticrew is confident that we have the right skills base and experience to deliver that project quickly.

There are two or three other things in the pipeline that we are very enthusiastic about. That takes us back to our knitting and the fact that the skills base in the yard does not stretch to the delivery of fairly sophisticated vessels, which is very sad. However, we are pulling that together.

Stuart McMillan: It is positive to hear that. I am quite sure that the workforce and the local community will be delighted to hear that.

Andrew Miller: We would definitely like to deliver some good news in the next six months.

John Petticrew: You have mentioned the involvement of the union. I have a formal meeting with Alex Logan once a week, every week, and I meet him informally during the week. I keep him as informed as I can on what is going on. We are going to have a town hall meeting later this week, at which we will update people so that they understand what is going on and do not have to just read about it in the press. We have leaks in the company, with people giving things to the press, but they pass on only a small piece of the information, not the whole thing. It is, therefore, better for people to hear things from us.

David Dishon and I have expanded the meetings of senior people so that we can give them information and they can pass that on to the people they are responsible for, and I am in the yard every day. In the end, I was in the Glen

Sannox for probably four or five hours a day, to push it through.

Communication is key to retaining people, and it is the young people we have to retain. That £14.2 million is for the next generation; it is not for my generation.

Andrew Miller: Yes, absolutely. A young lady we took through an apprenticeship won the Scottish apprentice of the year award—she beat every other competitor. We tried to get as much publicity as possible for that, but it did not hit a willing audience. She came to address the board and I asked, "What has the board got to do for you?" She said, "Give me a future. Tell me where my future lies." She is a very intelligent young lady. We can produce these people, and we need to continue to do that as part of the skill set for the Scottish engineering economy.

Stuart McMillan: I absolutely agree, and I think the fact—

The Convener: Stuart, I am sorry—

Stuart McMillan: I was going to finish on this point, if I may.

The Convener: It will need to be the final point before I bring the deputy convener in.

Stuart McMillan: That is no problem. There was such a dearth of apprenticeships over many years, so there is a gap, as we all know, in relation to young people coming into the business. The point about keeping people in the business and about work is absolutely crucial.

The Convener: We are up against the clock, but the deputy convener has some important final questions to put to you. Over to you, Jamie.

Jamie Greene: Thank you for putting your faith in their importance, convener.

Gentlemen, I appreciate that the clock is ticking. I recently jumped on the bandwagon of looking into my ancestry, and, when I got the certificates through, I discovered who my grandfather was. It said on the certificate that he was a welder in a Greenock shipyard, which was a surprise to me, because my granny never told me that. It then transpired that his father was a welder in a Greenock shipyard as well, so you could say that it runs in my blood. How on earth I am sitting here in a suit, talking about their finances, is another matter.

You are right, Mr Petticrew, that everyone wants to see the yard succeed. The question that we face—this goes back to the Auditor General's report—is about the fact that Audit Scotland has analysed the numbers and the current situation and has flagged some very serious risks around the business as a going concern. None of us wants to talk in those terms or in that language, but we have to reflect on what the Auditor General said. Therefore, I am looking for some comfort that, on the basis of the strategy and throughout the business, including at board level—as you say, it goes from the bottom up, from the apprentices in the yard right through to those in the Scottish Government who are in charge of the strategic vision for the business as a publicly owned asset—there is a real joined-up approach to creating a sensible and realistic plan for a future for the yard. Otherwise, all the warnings in the Auditor General's report would sadly come to pass. Fill me with some confidence that that is not the case.

Andrew Miller: Okay. By necessity, it is a backward-looking function. I say this with no disrespect to the people who are sitting behind me, but they have not had access to the long-term strategic positioning in the enterprise and all the work that we have done. In some respects, that falls outside the audit scope, but Audit Scotland quite rightly raises the issue of where the future orders are. Obviously, we will share with the parties behind us what we are going to do but only when it is signed off by the sponsoring body and the minister concerned.

Jamie Greene: You talked about a couple of potential orders. I recall my first visit to the yard, in 2016, when I sat with the then owner of the yard in the boardroom, where I am sure you have had a number of meetings over the years. I was given a very lengthy presentation about the pipeline of business that it was pitching and bidding for and the business that it was in advanced conversations about. To my knowledge, not one of those possibilities came to fruition or came to pass due to the situation that the yard found itself in, the receivership and eventual nationalisation. The list of business that it was pitching for was very long.

You mentioned that there are potentially a couple of contracts coming through. What I am getting at is whether, when the Glen Rosa sets sail later this year, we hope, there will still be 290 people working in the yard. Will there be enough business to keep them in work?

Andrew Miller: I referred to the two opportunities. There is the short-term deliverable and there is a long-term deliverable plan, which looks at five different workstreams that align to our skills base and to the market. We have applied probabilities to those—it is not 100 per cent for everything. If you were to take the top three or four opportunities—from memory—you would be talking about more work for the yard than it could comfortably handle, but we do not expect to get every single opportunity. That market calculation over 10 years is well in excess of £500 million, but we apply different probabilities.

The SVRP has its issues, which I have referred to, in relation to valuation processes that I cannot control, because it involves a different body with different governing rules—in fact, a different minister oversees that process through Transport Scotland.

11:45

Jamie Greene: Let us talk about that. One of the major flags raised in the previous evidence session and in the report was the idea that all the eggs have been put in one basket, that being the small vessel replacement programme. The Auditor General said:

> "if the yard was unsuccessful in securing work through the ... programme or if ... the shortfall was not backfilled by other ... avenues,"

there is doubt

> "about the yard's viability."—[*Official Report, Public Audit Committee,* 16 January 2025; c 11.]

Other comments were made around that in writing and in the evidence from witnesses sitting where you are sitting. Do you accept that, in the creation of the business plan for the yard, too much emphasis or reliance was placed on winning that business? If that work does not follow through, does it leave a huge, gaping hole in your business plan?

Andrew Miller: No, it does not leave a huge, gaping hole in the business plan, but, as I alluded throughout the procurement process, there is not a fair and equal field in which Ferguson Marine can participate in that procurement process because of the weighting given to price and the competition from overseas markets.

There are lots of other opportunities that have been added up and tabulated. Experts have been spoken to in order to validate Ferguson Marine's standing in the shipbuilding community. Expert advisers have provided advice on and input to the strategic plan.

There are many other opportunities. Everything is not on the table; everything is not set at 100 per cent, but what we are actually attempting to do will be revealed in our strategy document. Therefore, it is not the case that 100 per cent of the eggs are in one basket.

Jamie Greene: Are you saying that you can be beaten on price because Turkey and countries in Asia and in the middle east will build ships cheaper, for many different reasons, including reasons that perhaps we would not agree with, such as the conditions for their workforce, how much they pay their staff, and their health and safety records—the things that we like to excel at in our shipbuilding community in Scotland? Therefore, is your plea to the Government that, that issue aside, it should look at the wider macroeconomic benefits of putting this work into Inverclyde? Is that what you are saying?

Andrew Miller: Yes.

Jamie Greene: What are the intentions for the long-term future of the yard? Is it still the stated intention of the Scottish Government to return the yard to private ownership? If so, when will that happen?

Gregor Irwin: That is the stated intention at the appropriate time, if the circumstances allow.

Jamie Greene: Well, the time is now. I am asking whether that is the current intention.

Gregor Irwin: The intention is to do it at the appropriate time.

Jamie Greene: Right.

Gregor Irwin: Now is not the appropriate time. Glen Rosa needs to be completed and delivered. We are working on the strategy and will agree that business plan very soon, and we need to find new work for the yard. There is lots of optimism, as you have heard here today. We need to get this right, and, at some point in the future, we will be able to identify the appropriate time when we will be able to consider, once again, a market testing exercise.

We will, of course, retain the ability to respond to opportunities should they emerge, but there is nothing of that sort that we can point to at this moment. It is a question of doing it at the appropriate time.

Jamie Greene: At the moment, the yard is obviously striving to secure new business. I have no view on this, but does the fact that the yard is publicly owned—or state owned, if you prefer that terminology—inhibit or improve its ability to compete for, tender for and win new business? That has never really been clear to me.

Gregor Irwin: You could potentially see advantages and disadvantages. I would observe that most shipyards are not in public ownership. There are a number of shipyards around the world, including some that Ferguson's will compete with, that are in public ownership, and the public sector might be involved in different ways. However, even for a sector that relies on orders from Governments, including the related military sector, which has been referred to already, the norm is for yards to be in private ownership.

Jamie Greene: Okay. That sort of answered the question.

Over the past couple of years, one of the major sources of pain has been the fact that the vessels that were due to be delivered involved complicated systems that the yard had not made before. By that, I mean the dual fuel LNG systems that had to go into the Glen Sannox and the Glen Rosa. Does that also present an opportunity? Are you coming out of that experience with expertise and with proprietary knowledge or IP that is sellable in the open market? Alternatively, do you think that you have really burned your hands on that technology and that your business would rather do something else?

John Petticrew: No. I think that it is a sellable product. Everybody keeps calling it a complicated vessel. I keep correcting them and saying that it is not; we just did not plan it right. We are more than capable of building those ships. It is just a dual fuel project; it is simply about using two different fuels. We put the pipes in at the wrong time—let us call a spade a spade.

We need to get back to working on a series of vessels, so that we can put the lessons learned into practice. After my previous time in front of the NZET Committee, some of my ex-colleagues harangued me for having made it sound as though, in a previous life, we were running about like chickens with our heads cut off. What I was trying to emphasise is that, when you are working on six or nine vessels, once you get to the second or third one you have started to understand the flow and it becomes second nature. That is why the SVRP programme would be an ideal one for us. Even if you make some mistakes at the beginning, you will learn from them. I am not criticising anybody who came before us in the process. We tried to build the second vessel too soon after the first one. You need the design to be firm before you start.

To answer your question, I do not think that we should shy away from that type of work. We just need to plan it better, understand the build strategy and put a plan in place.

Jamie Greene: That is great. My final question is on the finances that were mentioned earlier. I am looking for reassurance that funding for any cost overruns that the yard identifies as arising in the next couple of weeks or months will be met through additional funds provided by the Scottish Government. None of that should come from the money that has been put aside for capital investment to improve and upgrade the yard or from any other part of its existing budget.

I mention that because it is exactly what happened last time. The Scottish Government gave the yard money, by way of loans, for the stated purpose of improving its infrastructure. We all know that that money got soaked up in the Glen Sannox cost overruns—that was the reality of the matter—and I am looking for comfort that that will not be the case again.

Gregor Irwin: That would be a decision for ministers. However, I would point to what ministers have said about their commitment to making such an investment. They have signalled that they will approve it, subject to satisfactory results from the commercial due diligence process.

Jamie Greene: Will that money be ring fenced? That is the question. Will capex investment in the yard be ring fenced?

Gregor Irwin: I am afraid that I cannot make budget allocation decisions. That is for ministers to decide, but I would point to the commitment that was made.

Jamie Greene: Okay. Thank you.

The Convener: Graham Simpson is trying my patience, but he has persuaded me that he has one short question to put, for which we are looking for one short answer. Graham, over to you.

Graham Simpson: I often try the patience of the convener.

The Convener: Without a preamble. [*Laughter*.]

Graham Simpson: One of the assumptions in the business plan is that the yard will remain in public ownership for five years. Is that realistic?

Colin Cook: You are looking at a business plan that is not currently on the table for us to go forward with. The new business plan might well make assumptions on the nature of ownership, but we have not seen it yet. As Gregor Irwin said, there is an assumption that, at some point, if the time was ever right, we would return the yard to the private sector. However, we will wait to see what the business plan says.

Graham Simpson: But is five years realistic, in your view, or could the period be shorter?

Colin Cook: The plan is likely to cover a capital investment programme over a couple of years. It will look at contracts that might or might not be available over a five to 10-year horizon, and there will be a decision about ownership during that period.

Of course, returning the yard to the private sector will require someone in that sector to be sufficiently interested to do it, which, unfortunately, is outside our control. If such an opportunity were to arise, we would look at it with full commercial due diligence.

The Convener: Thank you very much indeed. This has been a very useful session for us. The point of it was to shed light. At times, we have had a bit of heat, but I think that we have had a fair amount of light as well. Mr Miller, it is important that the points made collectively by our witnesses are on the public record, to ensure that they are clear for all to see.

As we discussed, you will perhaps supply us with further information. Mr Irwin, we are looking forward to Friday, when documents on due diligence will be produced. We might get back to you in the light of our having read those. We will also reflect on your invitation to revisit the yard. I think that there might be some benefit in our doing so, but that will be for the committee to decide.

I thank all our witnesses. We wish you luck with your continued endeavours. We want you to succeed, which is why we sometimes ask quite difficult questions.

11:56

Meeting continued in private until 12:25.

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