



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Thursday 26 June 2025

Session 6



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Pàrlamaid na h-Alba

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ECONOMY AND FAIR WORK COMMITTEE

22nd Meeting 2025, Session 6

CONVENER

*Colin Smyth (South Scotland) (Lab)

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Daniel Johnson (Edinburgh Southern) (Lab)
Gordon MacDonald (Edinburgh Pentlands) (SNP)
Lorna Slater (Lothian) (Green)
*Kevin Stewart (Aberdeen Central) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Paul Davies (Alexander Dennis)
Debbie McCreath (Alexander Dennis)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Economy and Fair Work Committee

Thursday 26 June 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Colin Smyth): Good morning, everyone, and welcome to the 22nd meeting in 2025 of the Economy and Fair Work Committee. This morning, we have apologies from Gordon MacDonald and Lorna Slater.

Our first item of business is a decision on whether to take in private item 3, which is consideration of evidence. Are members content to take that item in private?

Members indicated agreement.

Alexander Dennis

09:30

The Convener: Our next item of business is an evidence-taking session with the management of bus manufacturer Alexander Dennis. On 11 June, Alexander Dennis announced a consultation on consolidating its United Kingdom bus body manufacturing operations into a single site in Scarborough. It would mean the closure of a site at Falkirk and the suspension of work at Larbert on completion of current orders, putting potentially 400 jobs at risk.

Yesterday, the committee heard from trade union representatives. Today, I welcome representatives from Alexander Dennis: Paul Davies, president and managing director; and Debbie McCreath, external affairs and marketing director. As always, I appeal to members and witnesses to keep questions and answers as concise as possible.

I thank the panel for joining us this morning. What specifically would it take to keep production in Scotland? How many orders would Alexander Dennis require for that to happen? Is it about having a pipeline of business or a specific number of orders? What exactly is required?

Paul Davies (Alexander Dennis): The Scotland site's capacity is about 300 to 400 buses a year. The Government has asked us what it would take to postpone the consultation and stop the process; one issue is demand and orders for new buses, and we have indicated what the annual requirement would be. From a 2025 standpoint, the number is slightly lower.

The Convener: What is the number?

Paul Davies: It is about 70 to 100 buses this year. From our perspective, though, there are wider issues. Obviously, there has been a conversation about a potential furlough scheme, but there are wider issues around on-going demand and reform as well as the conversations about the Subsidy Control Act 2022 that have been had for some time now.

The Convener: But the 2022 act covers the whole of the UK, including Scarborough. I am trying to specifically understand what you would require in the next few months to effectively call off the closure of Falkirk. You are talking about 70 to 100 orders this year and 300 next year. How far away from that are you at the moment?

Paul Davies: We do not have sufficient volume in our order book to sustain two manufacturing sites in the UK, which is why we are looking at consolidation activity.

The Convener: How many more would you need next year to be able to run both sites?

Paul Davies: In the region of 300 to 400.

The Convener: And roughly how many orders do you have for next year?

Paul Davies: Very few.

The Convener: Okay. If you were able to secure those orders—between 70 and 100 this year, say, and 300 next year—would you give an absolute guarantee that production would take place in Scotland and not simply transfer it to Scarborough anyway?

Paul Davies: I would then make a further point about how we bridge the gap in our order book that is coming in the summer, and our being able to build bodies in Scotland in quarter 3—that is, in the autumn—hence the conversation about how we do that, given that we have no work in the summer and no new work coming in. That was why we had the conversation about a potential furlough scheme, but we then said, “Okay, what do we do beyond that?”

The market dynamics have changed significantly, and without some runway or feeling that something will change in the future, our decision-making process on the consolidation of manufacturing will be premised on market size and potential market share, assuming that nothing else changes. That brings us back to the question whether the landscape will change and conversations about local content, social benefits and such things. It is not just a simple matter of saying that an order will stop the consultation process—the conversation is broader than that.

The Convener: We will come to the very specific issues about the landscape in a second, but the fact is that those conversations will not result in a solution in the next couple of weeks. You might be in a situation in which you are able to secure orders; after all, you are talking about between 70 and 100 orders this year and 300 next year, and a furlough scheme might put you in that position and help you overcome issues.

What I am trying to get from you is whether such a scheme would make a tangible difference. Can you give an absolute commitment that, if you are able to secure the number that we have talked about, you will continue production at Falkirk and Larbert in the short term, while those discussions take place in the months ahead?

Paul Davies: There are wider implications for us. Over the past few years, we have spent a lot of money on retaining skills and capacity in Scotland—for example, we have paid for non-productive time. The market was very difficult throughout the pandemic; registrations are back to normal, but our market share has dropped.

Therefore, in order to stay financially stable and viable, we see consolidation on one site as the solution.

The Convener: You seem to be suggesting that, even if you got extra orders, you would consolidate anyway.

Paul Davies: Our message to the Government has been that a furlough scheme has to be considered as part of a bigger picture, given some of the other issues that we have been contending with. It might only delay a process rather than stop it.

The Convener: A scheme would allow conversations to continue, because, even with the best will in the world, changes to some of those things might take a bit of time—they will not happen in 45 days. You are having a 45-day consultation at the start of the summer holidays, when your workers are going off on holiday. With the best will in the world, you will not get answers in 45 days. This is about ensuring that there is an opportunity to have those discussions.

What would it take to stop the consultation to allow those wider discussions to take place? There is a feeling that this is a done deal, not a consultation. You do not seem to be able to say, “If we get 300 orders next year and 70 this year, we will hold things while we have those conversations.”

Paul Davies: It is absolutely not a done deal—it is a consultation process. We are very grateful for the active engagement that we have had from both Governments and other political parties and stakeholders. We, along with this committee, are absolutely committed to keeping the conversations going.

For us, though, there are other implications for the longer-term runway. Will the market dynamics change? Our assumption is that, if they do not change, we have to take action to look after the company in the right way.

The Convener: I come back to the point that a lot of those changes are not going to happen in 45 days. Might a commitment to having those wider discussions about the longer term over the next few months, along with specific orders, be enough to keep production going at Falkirk and Larbert?

Debbie McCreath (Alexander Dennis): To add to Paul Davies’s point, I would say that our ask of the Government at this time has been about the short-term solution. We have split the solutions into the short term and the medium to long term. We have short-term asks, which we are making in the consultation period. I should point out that the legal minimum in that respect is 45 days, so we are not set on the consultation period only being 45 days. Indeed, the trade unions have asked

whether the consultation could be extended, and we are currently reviewing that.

We are taking a two-pronged approach with our short-term asks. Can we look at introducing a furlough scheme that would bridge the gap until the orders come through? Although there are potential opportunities for 2025 and 2026, we would need at least a solid signal that solutions would be possible for both years. If a solution is found that meets demand only in 2025, it will essentially push our cliff edge to the end of 2025 and not solve the 2026 issue.

As for the conversations around subsidy control data and the medium to long-term things that you have referred to, we have asked for a signal as to whether local content rules and requirements might change. The UK Government's industrial strategy says that it will consider using public procurement

"to strengthen domestic supply chains".

We are hoping for a bit more of a commitment with regard to what that could look like. We are absolutely managing our expectations, in that we understand that such a level of change will not happen in the 45-day window, but we are really keen to make as much progress as we can.

The Convener: Okay. That is a wee bit clearer. However, you still require a minimum number of orders. Are you saying that an extra 70 for the rest of this year and 300 next year would absolutely allow you to continue production in Scotland, if you know that further conversations are happening?

Debbie McCreath: Yes.

Michelle Thomson (Falkirk East) (SNP): I have a couple of wee questions. First, it seems as if you are saying that, even if you reach the magical number of orders, you still have to get them sold, fulfil orders and have demand sustained at the same level to make your profit margins work. Am I correct in saying that the issue is sustained demand?

Paul Davies: Yes.

Michelle Thomson: Given the business's numbers and the financial flows that it has seen over the past few years—and well before Covid—it appears that there was a trigger for the action that is now being taken. We can see a pattern in the profit margins, but can you tell us what that trigger was?

Paul Davies: Historically, UK market registrations were between 2,500 and 3,000 buses per annum. Before the move to low-emission vehicles only, the competitive landscape was very different. During the pandemic, registration numbers went as low as 1,100 to 1,200 buses. As context for that, we delivered 1,400 buses to the

market in 2024, and we have an annual capacity across our factories of 1,600 buses.

We expected 2025 to be a difficult year, because of the way in which the funding rounds for zero-emission buses had played out. We knew that it would be a tougher year than 2024, and it has indeed become harder to remain a financially viable and sustainable business in 2025. Even if we assume that the market stays at around 3,000 buses and demand continues to be healthy, because of commitments to decarbonisation and having zero-emission fleets by 2030, 2035 or whenever, it is still the case that, if our regular market demand is now smaller—say, 30-something per cent rather than the 50 or 60 per cent that it was historically—we cannot afford to sustain two factories. It comes back to the size of the business, our ability to operate in one factory rather than two and staying financially viable.

Michelle Thomson: You have again articulated the position as it has progressed over a number of years. We can see that, but it looks as if the trigger has been the refinancing by Alexander Dennis or the parent company. Typically, that will involve a forensic accountant looking under the covers at the historical data and saying, "Wait a minute—something needs to be done here." Has that been the trigger?

Paul Davies: No. Our proposal has been entirely led by me and the UK executive team, although it will go through the executive of NFI Group, which is our parent company, and a board approval process. We are very lucky to have NFI Group as a parent company, because it has been hugely supportive of the business since acquiring it in 2019. However, the proposal has nothing whatever to do with NFI Group, refinancing or its financial situation.

Michelle Thomson: Okay. Thank you.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning. Following on from those questions, am I right in saying that you mostly only produce buses to order?

Paul Davies: Yes. We have different segments. We have a retail sector in which we build buses for stock, but it is a small part of the business—perhaps a third of the business.

Jamie Halcro Johnston: In essence, you are looking for orders. When you discuss orders with customers, how long does the process normally take from the start of discussions—the identification of customers and what they need, agreeing a price and so on—to confirmation?

Paul Davies: It can vary from six months to a year, but it depends on the sector, because the customers could be large groups, from provincial areas, major independents or from London.

Jamie Halcro Johnston: Okay. Feasibility-wise, you could still be having such conversations next year, but any processes ahead of that point would need to be expedited, which would, to some extent, require a company to be identified first. In your experience, how many companies or customers do you have that can work on such an expedited process without large incentives from the Government or other sources?

09:45

Paul Davies: That is a good question. When you look at the zero emissions landscape, most buses have typically been funded in some way through the Scottish ultra-low emission bus scheme, the Scottish zero emission bus challenge fund or the zero emission bus regional area scheme, and such buses tend to be a bit more complex.

We have a challenge in the market at the moment because we are transitioning from low-emission buses to zero-emission buses. Our observation of the market has been that that has created a bit of a vacuum, because if Government funding is potentially available, operators are more inclined to wait to see how it falls.

Another challenge in the UK is the advent of franchising, which started in Manchester and is rolling out to Liverpool and beyond. If you are an operator in a region that is going through a franchising process, you are very unlikely to invest massively in capital and new fleet, because you will have to tender for the routes and services. There are not many opportunities to pivot quickly.

Jamie Halcro Johnston: Thanks. I will perhaps come back to that and other questions later.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning. I want to interrogate the choice to consolidate at Scarborough as opposed to Falkirk. I would be grateful if you could explain to me the thinking behind that. What were the reasons why Scarborough was chosen rather than Scotland?

Paul Davies: Scarborough is a much larger site, it has more capacity and we have more team members there. It is capable of building all our product range, including single-deck low-emission buses, single-deck zero-emission buses and double-deck buses. We also have a long-term lease commitment in Scarborough. We own our Scotland facilities, whereas we lease the Scarborough facility. It would not be possible to consolidate in Scotland due to the facility's size and shape and the number of team members that we have there, but Scarborough can address that.

Murdo Fraser: Is there any difference in productivity or efficiency between the two sites?

Paul Davies: No, there is not much difference.

Murdo Fraser: Yesterday, when we spoke to the unions in committee, we explored the context and the fact that workers in Scotland are apparently paid a higher rate than workers in Scarborough. Was that a factor in the business's consideration?

Paul Davies: It is true that there is a difference in pay of £1.11 an hour between the two sites, but the issue is that site consolidation is not possible in Scotland. As I have explained, Scarborough can address that.

Murdo Fraser: Is there any difference between the two sites in the support or potential support that is available from public agencies, such as enterprise agencies?

Paul Davies: We do not have any support or commitment of support from the UK Government or local councils. We have fantastic support from Scottish Enterprise in Scotland, for which we are very grateful, but that was not a factor in the decision.

Murdo Fraser: Okay. Thank you.

The Convener: What is the level of that support? Is there any conditionality attached to it?

Paul Davies: Yes. For many years, we have had research and development grant funding from Scottish Enterprise, and the way that it works is that the funding supports new product development. As we transition to zero emissions, the big project over the past few years has been to bring our integral zero-emission buses to market. Scottish Enterprise grant funding has been available for that. There is also a condition around retaining jobs in Scotland, which we recognise and respect. The current grant from Scottish Enterprise is around £13 million, but, on the other side of that, we are investing £30 million of our own money into engineering and into bringing those products to market.

Debbie McCreath: We have received grant funding from Scottish Enterprise, but, as Paul said, the ratio is typically about 30 per cent Scottish Enterprise support to 70 per cent company investment. The funding has been spent on new products and bringing new technologies to market—things that are built and engineered in Scotland. All of our next-generation products, which are not only for the UK market but to be exported around the world, have been supported through the grant.

Some comments were made at yesterday's committee meeting about the union not being clear as to where the funding has gone. It is a research and development grant, and it has the jobs commitment that Paul Davies mentioned. The commitment is that, under the current grant conditions, we are contractually tied to having 520

people in Scotland, and we are aware of the fact that, if we left Scotland, that would be a key commitment that we would renege on.

I draw the committee's attention to the fact that Scottish Enterprise puts that condition on the grant. We would like to see that in other grant funding, whereby public money is given to retain jobs and investment in the local area.

The Convener: It does not seem to have secured those jobs, though. What is the value of that grant?

Debbie McCreath: The value of the current grant is £13.2 million, and we have drawn down £11.2 million in the current period. The company has contributed £40.5 million, which brings the investment to a total project value of £53.7 million. The previous grant covered 2019 to 2022, with Scottish Enterprise contributing £10 million and Alexander Dennis contributing £18.9 million, which brought the investment to a total of £28.9 million.

The Convener: What period does the current funding cover?

Debbie McCreath: The £13.2 million of funding covers 2022 to the present—it is due to run until the end of the year—and the previous funding covered 2019 to 2022.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Thank you for coming to talk to us. We spoke to union colleagues yesterday, as you know, and I asked them whether they had been given any access to or sight of the company's business case for Scarborough—which Murdo Fraser asked about—and perhaps the governance as well, so that they could have an opportunity to scrutinise it and to understand your thinking. However, all that they could say was that they had not been given it and that they were told that it is an "orders issue". I think it was Robert Deavy who repeated that several times.

In your answer a moment ago, you said that the Scarborough site is bigger and that it can do everything, whereas the Falkirk site cannot. The question that arises is why, with all the Scottish Enterprise money that you have had over the years, you have not made Falkirk's production as competitive as Scarborough's.

Paul Davies: On the point about the business case, an explanation of the business case is a fundamental step of the consultation process, and we have provided that. Therefore, I am slightly surprised to hear that the unions said that.

Willie Coffey: Is that a document, Paul, or have you provided only an explanation?

Paul Davies: We have a documented business case.

Willie Coffey: Can we see it, to confirm it?

Paul Davies: No problem.

On your point about Scarborough and Larbert—and as I said in response to an earlier question from the deputy convener—Larbert has had significant investment. Last year, we spent the best part of £8 million on transforming the Larbert site into a first-class manufacturing facility for zero-emission buses. We did not do that with the foresight that we would be in this position in 2025. I guess that that speaks to the earlier question about whether some other event is driving this. We would never have made that investment to make Larbert what it is had we expected this situation to have unfolded.

Willie Coffey: Can Larbert compete with Scarborough?

Paul Davies: Yes, but it is not about competitiveness; it is about the physical size and shape of the sites and the ability to deliver a full product range out of Scarborough. Larbert does not have that capability.

Willie Coffey: You do not have the orders to fill up that space and capacity, but you are still closing the Larbert and Falkirk sites.

Paul Davies: Yes.

Debbie McCreath: The Larbert site is designed to build double-deck products only. It is a brand-new, modern production line. We have gone from traditionally having nine stages to having 18. The idea was that it was always going to be the home of the double-deck bus. However, Larbert can build only double-deck buses, whereas Scarborough has the capacity to build double-deck and single-deck ones.

Last year or the year before, we made a decision to create a single-deck extension to the Scarborough site, which was supposed to be done in tandem with the Larbert site, but unfortunately, because of the situation we find ourselves in, we are now having to consider a consolidation. Scarborough has the same capabilities as Larbert, but Larbert is not a complete factory. It is a production line, but it does not have a paint shop on the site at this time. It is a modern facility, but it does not have the complete finishing that we require for the full factory to work.

Willie Coffey: It will be hard for the workers to hear that, because Larbert does not have a paint shop, the site is being closed down and they are losing their jobs. That is a bit much.

Debbie McCreath: It is not only that it does not have a paint shop; it is that Larbert is not a fully-functioning production line from start to end, whereas Scarborough has the ability to make all products and it can do everything from the beginning of production to finishing. I would like to

clarify that it is not because Larbert does not have a paint shop that we made the decision.

Willie Coffey: Is there a chance to allow both Governments and the unions to put together a business case of any shape, size or colour that you would genuinely consider? I ask that in all honesty. I remember the Diageo situation in Kilmarnock, which was in exactly this position. Local people worked furiously, as did both Governments, to put a business case together and present a case that had possibly not been considered. We are on a net zero journey, and we anticipate and hope that there will be huge demand for buses, so it does not make any sense that this decision has been made in this climate. Is there a chance that, if people put the work in to put some kind of business case to you, you will give them the opportunity to make that case?

Paul Davies: Yes, absolutely. This is not an easy decision for us. I have worked for Alexander Dennis for 27 years, and it is not an easy decision. As I said earlier, we are absolutely committed to having those conversations. The activity that has taken place in recent times is testament to the desire and commitment to do something.

However, I repeat that the conversation about how our markets have changed is not a new one for us. We are trying to be competitive in the UK when no consideration is given to our cost structure—energy costs, material costs and other such things—and it has become a very difficult proposition. That is why, in answer to the convener's opening question, I said repeatedly that we believe that something has to change structurally in the longer term; otherwise, in a fiercely competitive environment, our position is very difficult.

We are absolutely committed to having those discussions.

Debbie McCreath: For quite a long time, we have been very vocal in our advocacy for the net zero transition and decarbonisation. We have said that there is a great opportunity in the UK if we can find a way to be competitive against those that are not dealing with the same ingredients in terms of our manufacturing process and costs. We have asked ourselves whether we can capitalise on that, but unfortunately we are now out of runway, which is why we have had to make the decision to go to consultation.

Willie Coffey: Thank you for giving that commitment, Paul.

Daniel Johnson (Edinburgh Southern) (Lab): I thank the witnesses for coming in this morning. Let me be clear: we would like more buses to be built in the UK and, indeed, for you to build more and to build them in Scotland. Our questions might

sound critical, but they are about clarifying how we can create such a situation.

You said that your capacity in Scotland is 300 to 400 buses, so does that imply that your capacity in Scarborough is 1,200?

Paul Davies: It is 1,200.

Daniel Johnson: You painted a picture of the investment that has been made in Scarborough and in Larbert. Can you provide a timeline of when the key decisions were made? That investment implies that you have been building capacity in Scarborough for some time.

Paul Davies: No, I would not say that at all. I would say that the investment in Scotland dwarfs the investment in Scarborough. We do not own the Scarborough site. We made an extension to our single-deck production line, we made some changes to our double-deck production line and we took on a kitting facility to make the Scarborough site more efficient, because it was struggling with logistics. Those were very minor investments—in the order of £1.2 million.

The Larbert investment has been way more significant. As I have said, we provided £8 million last year to get the Larbert site set up to build zero-emission double-decks. We would not have done that had we known that we would be at this point in 2025; had there been some foresight, we would not have wasted the money. As Debbie McCreath has said, we fully intended to run both sites, with Larbert as our world-class double-decker zero-emission bus site and Scarborough able to supply low-emission buses and having the capability to build zero-emission buses, too.

10:00

Daniel Johnson: You were investing more in Larbert, but you are now choosing to go to Scarborough. Can you explain to me why that investment in Scarborough—which you said was a small investment for the production of single-deck buses—could not have been made in Larbert or, indeed, Falkirk?

Paul Davies: I guess that it goes back to the issue of the size and shape of Larbert versus the size and shape of Scarborough. The facility at Scarborough is much bigger and more versatile, and there is more space to expand. The Larbert facility does not support that, simply because of geography.

Daniel Johnson: Is ownership part of the issue? Given that you are under pressure, is this about asset liquidation and freeing up capital for your balance sheet? I am simply asking the business question.

Paul Davies: No.

Daniel Johnson: Okay. You mentioned the size and shape of the market, and I can understand why that is the fundamental issue. According to figures that have been supplied by the Driver and Vehicle Licensing Agency—which, I think, are slightly different from the figures that you have referenced—it looks as though, in the years up to 2019, you were producing about 1,200 buses, with the figure varying from just under 1,200 to a peak of 1,493 in 2016. Is that right?

Paul Davies: Within a margin of error, yes.

Daniel Johnson: According to the figures that I have, which are based just on DVLA registrations, those figures equated to a 13 or 14 per cent market share over that period of time. Is that right?

Paul Davies: That is not just for buses. It sounds as though you are referring to the broader automotive share.

Daniel Johnson: What do you think the market share is?

Paul Davies: For buses, it would be 55 per cent.

Daniel Johnson: When we look at the past couple of years—during which, obviously, there was a pandemic—we see that the figure for 2024 was 976. Is that right?

Paul Davies: The figure for 2024 was 1,278. There will be some timing differences with the figures.

Daniel Johnson: Indeed—there is some lag. Nevertheless, that represents a drop in market share, does it not?

Paul Davies: Yes, it does. The statistic that you referenced for 2016 equates to a 57 per cent market share versus 45 per cent in 2024.

Daniel Johnson: What has driven that? We understand the interruption—everyone faced it—but what was so different about the new post-pandemic world that meant that your market share dropped by 10 per cent?

Paul Davies: In 2016, those buses would all have been low-emission ones, and the competitive landscape was much different. In 2024, we are talking about a mixture of low-emission and zero-emission buses, with, again, a much different competitive landscape.

Daniel Johnson: Is it a case of there being competitors with better expertise in and experience of battery and electric motor technology, or are there other factors that are allowing them to compete? Can you pull apart that issue a little bit?

Paul Davies: To some extent, that is the case. As I have explained—I go back to the summary of

the research and development grant funding—we have been on a big investment journey over the past few years to bring a new range of zero-emission buses to market. It is only this year that we will have our own zero-emission single-decker coming to market, so there is no doubt that the international competition has had a massive head start off the back of a well-thought-through state industrial strategy—something that, as we know, we are seeing in other sectors beyond buses. A number of factors are driving that change in market share.

Daniel Johnson: Can you zero in a little bit on that? You mentioned state industrial strategies that exist in other countries. I presume that you are talking principally about China and Egypt.

Paul Davies: China.

Daniel Johnson: What does that strategy look like? What has China provided, and what advantage has been afforded to your Chinese competitors that you have not benefited from?

Paul Davies: I will zero in on time and cost. Some of the Chinese buses that are being supplied to the market today have been through a very long maturing development cycle—they were brought to market in 2012. Given that the first zero-emission buses came into the UK in 2017, we are talking about what was already quite a large head start.

Therefore, there is no doubt that there is a product maturity element. The buses are reliable, are of good quality and are well respected in the market. The issue is the product development timeline and the head start that China has had over the rest of the world—not just the UK but other countries.

The second issue relates to the battery supply chain. Before I came back to the UK, I spent 20 years of my career in Hong Kong. As a result, we have relationships in China from a manufacturing standpoint, and we know from those conversations that we are paying probably twice as much per kilowatt hour for batteries and such things.

There are some fundamentals. Clearly, there are other supply chain dynamics relating to labour costs, we pay four times what China does for energy, and so on.

Daniel Johnson: I think that we understand the labour costs, and let us not get into the dynamics of electricity and energy costs. I am interested in the direct state benefits and support that your competitors have. To what extent has that been a contributory factor in the headwinds that you are facing with regard to market share?

Paul Davies: To be honest, I do not have the specifics on that. We could point you in the direction of the European Commission's

investigation into some of that issue, which has been pointing at tariffs on cars, for example. Some of the same companies are involved in that sector. However, we cannot give you the specifics—I do not have that information.

Daniel Johnson: You mentioned the Subsidy Control Act 2022. My understanding, based on the correspondence that I have seen, is that the act, as it stands, allows social value to be considered as part of a bid, allows direct awards to be made and allows differential treatment of non-treaty countries, into which category China falls. What is your understanding of what can be done under that act? You also alluded to looking for further changes, and I would be interested in hearing what you think those changes should be.

Debbie McCreath: You are correct in your assumptions about what can be done under the 2022 act, but the challenge that we in the bus world have found is that the principles are applied to grants and subsidies. When we talk about Government funding rounds, we really mean subsidies or grants that are given to stimulate demand in the market. However, there is a clause that says that you cannot actively specify as part of a grant that you would prefer something to be made domestically rather than imported. In every funding round that we have had in Scotland or the UK, we have asked whether local content could be a condition of the grant. Every time we have raised the concern, the advice has always been, “We cannot do that. The subsidy control rules and the act itself bind us, so we’re not allowed to do it.” If the proposal went to the Competition and Markets Authority for approval, it would say, “It doesn’t meet subsidy control rules.”

We understand that the direct award aspect is correct, as is your suggestion about non-treaty countries, but the challenge is that, when competitive tenders are run with subsidy, it becomes quite challenging to impose those rules. We are really encouraged by the focus on social value, particularly in the new Procurement Act 2023 for England, and we are hopeful that some changes will be made as a result, but the challenge that often arises for us is how we define the term “social value”. After all, one person’s social value could be different from someone else’s.

In that respect, we have been doing a bit of work through an English initiative called the UK bus manufacturing expert panel to see what social value is. In some tenders, it could be about donating to a charity, whereas, in others, we might need to talk about our environmental and social governance work. We are hopeful that social value can start to cover jobs and economic growth, but, for us, the subsidy control issue comes up when grant funding is involved. Indeed, that has been

the blocker in the majority of the zero-emission bus purchases that have been made in the UK over the past few years. We cannot tell the local authority or some other entity, “We want you to buy British.” As I have said, that has always been the advice that we get back.

Daniel Johnson: I have a couple of final questions. You have obviously benefited to a degree from the rounds of the Scottish Government’s—*[Interruption.]* I am sorry; I am flicking between tables in my document. There is some ambiguity about the precise number of buses that you ended up being able to supply as a result of the Scottish zero-emission bus challenge fund, or ScotZEB. Can you clarify how many buses in ScotZEB rounds 1 and 2 were ordered from Alexander Dennis?

Debbie McCreath: Yes—110 orders that came to Alexander Dennis were funded through the ScotZEB 1 programme, and there were 44 orders under ScotZEB 2. I am happy to provide the committee with our data on the orders, and we can go back to the SULEBS orders, so that you have the specifics—

Daniel Johnson: It was my understanding that 44 was the number under the second round.

Debbie McCreath: Yes, that is what we have, and we are happy to share the data with the committee.

Daniel Johnson: You set out that you have received quite a substantial amount of funding in recent years from Scottish Enterprise. The figure is higher than the one that the committee had. Over the years, the funding has amounted to tens of millions of pounds. According to my numbers, you have received more than £7 million in the past three years alone, but it sounds as though more than that has been made available. Did you, at any point, discuss with Scottish Enterprise your commitment to Scotland or the fact that these options were on the table? I cannot believe that the thought occurred to you only in the past six months that you might consolidate the business in Scarborough.

Paul Davies: The business review of what we need to do to protect the business in its entirety and be financially viable—that conversation—took place in February. I point to the previous actions in relation to investment in Scotland. Had this been some sort of predetermined plan, we would not have made the investment in facilities in Scotland that we made last year. As I said earlier, having delivered 1,400 buses in 2024, we knew that 2025 would be a tougher year. However, it has got tougher than we expected, and we undertook the business review in February this year.

Daniel Johnson: Forgive me, but, having been in business—and businesses of different sizes—I

know that that might have been the point at which you started to formally assess that plan, but I cannot believe that that was the first time that the business considered that scenario. What was the first point at which you, as a company executive, set out planned consolidation as an option for the business?

Paul Davies: The answer is February. I point you to—

Daniel Johnson: You did not discuss that possibility at any board or management meetings before February this year.

Paul Davies: That is correct. Let me explain why. I go back to the registration data that you referred to earlier. We can look at the number of buses that Alexander Dennis supplied through the pandemic years. In 2016, the number was roughly 1,500; in 2021, it got as low as 604. I spoke earlier about being very lucky to be part of the NFI Group, and that figure is important because, over those years, the company has invested a significant amount of money—an eight-figure sum—in what we call non-productive time to retain skills and capacity while waiting for better days to come, by which I mean when the market returns. We have done everything that we could to not lose the skills and experience that underpin our business. The reality is that, in better times—you could argue that 2024 was a better time—our volume was 1,278, but, more importantly, from a zero-emissions standpoint, the growth in the market share of foreign competition has emerged only in the past 12 months or so. That is now a reality for us, which is why, in February 2025, our considering what we needed to do to be financially viable was the trigger for that option.

Daniel Johnson: I totally accept that it might not have been planned, that you wanted the plant to grow and that that is why you made the investment, but I just find it slightly hard to believe that February was the first point at which you did even a speculative examination. In a business—especially a business the size of yours—you scenario plan and look at the optimistic, expected and pessimistic scenarios, so I am just wondering at what point in the past few years was the first time that the option of plant consolidation appeared, even if it was a distant pessimistic scenario. You never—

Paul Davies: No.

Daniel Johnson: Okay.

Paul Davies: Our annual operating plan for 2025 originally had 1,400-plus buses. The most likely outcome this year is somewhere between 900 and 1,000. We would never have gone to our board for approval for £8 million of capital investment in the Larbert facility had we had consolidation as a thought.

Daniel Johnson: Did you access any of the Scottish Enterprise money after the February decision to look at plant consolidation? Was the application to access Scottish Enterprise funding made prior to the February decision, or did any of it happen subsequent to the decision in February?

10:15

Debbie McCreath: The application was made in May 2022, so it was prior to the decision, but we have on-going governance reviews with Scottish Enterprise. We are very open and frank with it about the situation that we find ourselves in, so it is fully briefed on what is going on.

Daniel Johnson: Thank you very much. I hope that you understand my reasons for wanting to probe the timeline and decision-making process.

Michelle Thomson: NFI Group published the results of its refinancing plan in July 2023. Any normal refinancing plan would look under the covers of all elements of the business, so did that plan look at the process of the ultimate consolidation as a condition of the refinancing?

Paul Davies: No.

Michelle Thomson: Debbie, I think that you said that you have received £13 million from Scottish Enterprise and—correct me if I am wrong—that it is the first time that you have reneged on anything. What, if any, remedies are in place for Scottish Enterprise with regard to clawback?

Debbie McCreath: The clawback clause is a risk that we built into the business plan. When we were considering the consolidation plan, we said that Scottish Enterprise could claw back the full amount. We have considered that financially; it could, arguably, say that we have reneged on our commitment and that it can claw the money back.

Michelle Thomson: You have baked that in.

Debbie McCreath: Yes, we have absolutely baked that in.

Michelle Thomson: You mentioned, peripherally, engagement with the UK and the Scottish Governments. It would be useful for the committee to hear what that engagement has been, although I appreciate that there might be some things that you cannot share. With regard to the UK Government, the Department for Business and Trade has a separate section for distressed businesses. Have you had any engagement with it? If so, what has that involved, what has it offered and what is the current status? The same question applies to your engagement with the Scottish Government.

Debbie McCreath: I am happy to deal with the Scottish Government engagement first, because

that is probably the easiest to start with. To be clear with the committee, we made both Governments aware on 23 May that we were considering this action. With regard to Scottish Government engagement, the First Minister and the Deputy First Minister have been actively engaged with us. Subsequent follow-up has been with the economy directorate in the Scottish Government, Transport Scotland and Scottish Enterprise.

At the UK Government level, the Secretary of State for Scotland has been the predominant lead. We have also had meetings with the Department for Transport, through the Minister for Local Transport. With regard to the Department for Business and Trade, we have engaged with the Minister for Industry.

At the moment, we are not classed as a distressed company. We asked whether that was something that could be considered, but the response from both Governments has been the creation of a cross-Government working group or task force. To be clear, Alexander Dennis is not part of the task force. It is chaired by the Scottish Government, and the group is made up of Transport Scotland, Scottish Enterprise, the Scotland Office, the Cabinet Office, the Department for Business and Trade and the Department for Transport. I do not know whether that is instead of the distressed company support, because I believe that there are certain metrics in the Treasury department in relation to that. We have not quite got to whether we fit the definition right now.

The engagement has been really encouraging, and both Governments are really keen to help, but we are trying to see what we can do in this consultation period. There has been great engagement from both sides, and we welcome commitments from combined authorities to reconsider their timelines, too. The support has been fantastic, but the scale of the challenge is quite large for us. We are under no illusion: the asks that we have outlined to the committee today are big asks, and they are being actively considered.

Michelle Thomson: We have heard about various options being on the table. You would have heard the unions talking yesterday about the potential for a shorter-term furlough scheme. Have you gamed various scenarios in relation to what commitments you would give in return? I appreciate that there could be a variety of scenarios but I am trying to explore with you the extent to which you have thought that, if you are going to get X, you will give something back. Can you give me a flavour of what scenarios you have gamed?

Debbie McCreath: We have been working on the expectation that, if the orders were to come through, they would be built in Scotland. We have taken it as a given that that would be part of the expectation, so we would completely accept that.

The furlough scheme is complex. The solution has to be both, for it to come through for us. It is proving complex to get into the detail of how the furlough scheme works and what the legal risks and challenges within it are. However, we are fully committed to exploring it and seeing what risks the company versus the Scottish Government would take on, as it is a special situation. However we are absolutely committed to working through it. We have been sharing things like payroll data and considering what the figures would be like and whether we can afford such a scheme.

We are fully committed to doing it but I imagine that the committee's main interest is for the orders to be built in Scotland. Even if they were not destined for Scotland, the expectation would be that we would build them in the Scottish factories.

Michelle Thomson: You are absolutely right: it comes down to risk. That will be as much a consideration for the Scottish Government and the UK Government because they cannot risk giving public funds that do not result in a sustainable business plan—we talked about demand earlier.

If things were to change, could chassis building be brought back to Falkirk? Is that an option that is being and should be considered?

Paul Davies: I will take that one but I will also come back to your previous questions. Those conversations are live. There have been discussions on furlough in the past hours and there is regular correspondence on that topic.

The most recent consultation meeting was on Tuesday. Those meetings are to try to explore options that have been proposed as potential alternatives. We heard the trade union make reference to that yesterday and we have taken it away as a task. It is a normal part of the consultation process to explore whether doing that is feasible in any way so, yes, we will investigate it.

Michelle Thomson: Okay. That is good to hear.

How would you define the relationship between the unions and management? What, if any, changes would you want to put in place were a route forward for Falkirk to be found?

Paul Davies: Relationships are reasonably good. I was surprised to hear the word "frosty" used yesterday. I have a good relationship with the national officials. That has been born because the challenges that we have in our sector are also observed in other parts of the automotive industry.

I also point to our relationships as an employer. We are the highest-paying bus manufacturer that serves the UK market. Our voluntary turnover in Scotland is around 1 per cent. We have a very good track record of well-paid, skilled jobs and of people who join us having a career with Alexander Dennis.

On the trade union relationship in relation to any changes, a level of flexibility would be welcome. We talk about building 1,600 buses a year but they do not all come at once. That would be a level-load factory and, sadly, our world does not work like that. That takes us back to earlier question on who can move quickly.

As I said, I was surprised to hear the term “frosty” being used yesterday because relations are pretty positive. Both unions have been clear about wanting to work with and engage with us to get to the right outcome. When we talk about active engagement politically, we are also referring to engagement with the trade unions.

Michelle Thomson: I do not want to sound rude, but does it not tell you something if the unions came to us yesterday and used the term “frosty”? As a minimum, it suggests something about the manner of engagement, which goes beyond jobs and the functional stuff that they have to do with.

How would you classify your active engagement? The unions cited a specific example of their having written to you and not having gotten a response at all. There is clearly a perception that they are being talked at rather than engaged with.

Paul Davies: I would be very happy to share with the committee my response to the gentleman who raised the point yesterday, which I was somewhat surprised to hear, as that is not how I would characterise it.

Michelle Thomson: Thank you. I am just checking—I had a wee list of questions. No, I think that I am done. Thank you, convener.

The Convener: I bring in Jamie Halcro Johnston.

Jamie Halcro Johnston: Before I get to the main questions that I want to cover, I refer back to Daniel Johnson’s question about the funding that was awarded in 2022 through Scottish Enterprise. Has any of it been drawn down since February, when the decision was made to consolidate?

Debbie McCreath: I will need to come back to you with our exact account, if that is okay. I am happy to write to the committee to confirm whether anything has been drawn down and whether any specific claims have been made since February.

Jamie Halcro Johnston: It would be great if you could do that. In response to Daniel’s—and, I

think, Michelle’s—questions, you talked about baking that aspect into the decision. How much have you baked in? Have you basically considered returning the full amount?

Paul Davies: Yes. That is our obligation.

Jamie Halcro Johnston: Okay. Again, following Daniel Johnson’s question about when you might have considered consolidation, will you make a profit this year?

Paul Davies: No.

Jamie Halcro Johnston: Did you make a profit last year?

Paul Davies: Not at net income level, no.

Jamie Halcro Johnston: When was the last year in which you made a profit?

Paul Davies: 2019.

Jamie Halcro Johnston: Okay, so it is a fair few years in which you have not made a profit. Have consolidation or looking at your assets been part of considerations at all?

Paul Davies: No, but I will give the same response that I gave to Mr Johnson. We have spent the best part of, I would say, eight figures on retaining skills and capacity. That has not been only for the sake of it; we did so with a belief system that the market would come back. We are all in agreement that public transport should be in a good place in relation to decarbonisation. What is not positive, however, is the reality that the market is not as we expected.

Jamie Halcro Johnston: I am coming to that. My questions are all about sustainability and how we can produce buses in this country with competition that seems only to be growing. I want to get some kind of clarity on that. I think that you talked earlier about the UK demand for buses. What is the Scottish demand? I appreciate that it might change, but what is your market share of the annual Scottish demand for buses on average?

Paul Davies: We might need to come back to you on the details for Scotland, which is obviously much smaller than England; I do not have them off the top of my head.

Jamie Halcro Johnston: Okay. You might have to come back to us on this point, too, but do you know, roughly, the ratio of the private and public sector components of the Scottish demand?

Paul Davies: We will come back to you on that.

Jamie Halcro Johnston: Alright. I will start with my other questions. The union officials whom we had in yesterday suggested that, on average, the Chinese models, on which we were focusing, are about £100,000 cheaper per unit—I do not know

whether that means per bus—than the models that you are producing. Do you recognise that figure?

Paul Davies: No.

Jamie Halcro Johnston: Do you not?

Paul Davies: No.

Jamie Halcro Johnston: Are you be able to say why?

Paul Davies: Well, we do not know for sure; we would not normally have access to commercially sensitive information. I was, again, slightly surprised to hear the figures that were quoted. We do not recognise them.

Jamie Halcro Johnston: Okay.

Debbie McCreath: We are not supposed to know. Competition-wise, we as manufacturers should not know what our competitors are pricing. We can go on feedback from tenders, for example, if we have lost out or perhaps had intel from a customer, but we do not have access to the data on pricing. Our understanding is that the likes of Transport Scotland and the Department for Transport have it—it would be a sample based on the applications that they have had for funding, within which everyone must quote the prices that they have been given.

Jamie Halcro Johnston: However, if we or anybody went to them, they would of course say that it is commercially sensitive information, so they would not be able to provide it anyway.

Debbie McCreath: Possibly, yes.

10:30

Jamie Halcro Johnston: I appreciate that. Without putting any figure on it, do you think that your competitors are producing more cheaply because of the whole load of things that we have talked about today, such as supply chains and labour? Do you imagine that that is why there is a gap in price?

Paul Davies: A distinction perhaps needs to be made between market price and market cost. For bus operators, the price, reliability and total cost of ownership of the vehicle as well as what it does are equally important. On whether I think that the international competition has—how to describe it?—a sort of stronger ability, yes, I do, because the market cost is significantly different for the some of the reasons that I outlined earlier.

Jamie Halcro Johnston: I recognise that. If there is that gap there, is it widening?

Paul Davies: From our standpoint, different factors are at play, such as battery pricing, which is almost a function of raw material movements, and our input costs, which obviously go up every

year with inflation. I must say, too, that for a business of our size, a bill of £2 million of national insurance contributions this year is significant. Therefore, the gap could potentially widen.

Debbie McCreath: That is why we are keen to have that discussion on the level playing field and local content recognition. It would level things off a wee bit if the fact that we have those higher input costs could be recognised or if there were some ways to weight that within tenders.

To give a bit more context of why we keep coming back to local content, the NFI Group, which has been mentioned, is a North American business, and our sister companies in NFI Group operate predominantly in America and Canada. In America, you have the buy America scheme, whereby 70 per cent of any bus must be American—the only way that you can do that is to have the people there, in America, building your buses. In Canada, some of the provinces have a 25 per cent Canadian content rule, so, again, there is a requirement to level the playing field there. We are explaining to NFI Group that the challenge in the UK is that we do not have those requirements. Costs remain the same in the UK and there is no way to say that things could be easier in relation to creating that level playing field.

Jamie Halcro Johnston: That is helpful. We all accept that China can mass produce a lot more efficiently than we can across several different sectors. However, you do win orders from UK bus companies. Witnesses mentioned that there was an order in Blackpool—is that right?

Debbie McCreath: It is a prospect.

Jamie Halcro Johnston: Ah, okay—apologies.

Debbie McCreath: The companies that were mentioned yesterday are all only prospects.

Jamie Halcro Johnston: Okay. When you win contracts, however—because you obviously are winning contracts from transport companies—what are you winning them on? You are winning those deals, so why are they choosing you over what we probably accept is a cheaper alternative from abroad? That point is obviously so important.

Debbie McCreath: Scottish Enterprise grant funding is what has been able to help us to create leading products in technology and innovation. The buses that we have designed for the UK market stack up against its competitors—they are super-efficient and have a good range on them. We have done a lot of engineering to ensure that our buses can do the job that operators require. We do things such as route modelling with them to see what kind of bus they actually need, and we have done specific tailoring work with operators whereby we have said, “Here is the bus that we’ve

designed, but here's what we think would be best meet your requirements."

On our being able to win, I have outlined the financial contributions that have gone into those products: we have made the investments and created Scottish-engineered buses that can indeed win contracts.

Jamie Halcro Johnston: So, the buses are winning contracts on product rather than on subsidy and so on. It is because that they are choosing your product over—

Debbie McCreath: Yes.

Paul Davies: I will just add a comment on that. There are a number of reasons for that. The UK's low-emissions sector—not the zero-emissions sector—is less competitive because nobody is innovating in low-emission buses anymore, so that sector is much less open to disruption. The UK's capacity is not limitless in terms of who can supply. The UK also has some unique requirements, with our infamous Roman roads, minibuses and so on. We have a highly customised, highly tailored offering for the UK market, where the size and shape of the buses are important and, from a fleet commonality standpoint, some operators have similar components and relationships. So, there are numerous explanations for why they are choosing our product.

Jamie Halcro Johnston: Okay. I still have a few questions. How much of your supply chain and components for buses currently come from China? Do you import a significant amount?

Paul Davies: We have to use the global supply chain. The UK does not make axles or transmissions any more—those industries were lost many decades ago. I do not have the number for imports off the top of my head. A significant percentage comes from the UK and Europe, but I do not know whether we have that number in our documents.

Debbie McCreath: There are about 1,000 suppliers in our UK supply chain, and we have spent about £1 billion with Scottish suppliers specifically over the past 10 years. Those figures are based on economic impact analysis that we did with Scottish Enterprise and PwC. The Alexander Dennis supply chain supports 370 jobs in Scotland. The combined gross added value from things such as income tax and national insurance in our supply chain alone is £28.3 million for Scotland, and for Alexander Dennis alone it is £26.2 million. The wider employee spending that we would include in those types of calculations amounts to about £8.1 million for the Scottish economy. So, in total, through Alexander Dennis, our supply chain and our employees being part of communities in Scotland, we are looking at

£63 million of GVA contributions to the Scottish economy alone.

Jamie Halcro Johnston: You mentioned that the Scarborough capacity was about 1,200 buses a year, which essentially caps the potential of the company, as it cannot produce more than that—

Paul Davies: Not without recruitment or shift working.

Jamie Halcro Johnston: It cannot produce more without recruitment or shift working. So, if the demand was there, you could increase production at that site. With production capped at 1,200, is that a sustainable model for you?

Paul Davies: Going back to your question on profitability, the business review that we have undertaken explores how we can become a profitable, sustainable business; at what level that would need to be; and how we would do it. That was the exam question that led us to the current outcome.

Jamie Halcro Johnston: Were other models considered? For example, you are already importing assembly parts—I am not advocating for that; I am playing devil's advocate, as that is where some other businesses have gone.

Paul Davies: We already do a level of that. For example, the steel fabrication element of our new small bus, which we brought to market in answer to a call from the market, was done in China. As I said, I spent 20 years over there. We used to build buses in Hong Kong. We moved that work into China to help our Asia-Pacific market, so it is not something that we are unfamiliar with. There are other issues there, such as shipping costs and shipping delays. We have lived through the challenges of blockages and things like that, so having that extended supply chain is not easy. On paper, it sounds like a good idea, but it is quite challenging to execute.

Jamie Halcro Johnston: I suppose that what I am looking for in answer to my questions is whether the model of reducing capacity, making fewer buses and being able to compete on certain contracts—when your competitors in other countries are perhaps mass-producing or producing at a far higher rate, and are therefore able to take some of those hits—is sustainable.

Paul Davies: I think that that brings us back to the crux of some of the questions we have asked over the last few years around what the value is of doing things in the UK generally—

Jamie Halcro Johnston: Without Government intervention.

Paul Davies: Yes. That is the crux of it, really.

Debbie McCreath: We have what we would call a split-build strategy with some overseas

manufacturing. If things changed in the UK and there was more of a requirement to be here, we would absolutely consider bringing that manufacturing back to the UK.

Jamie Halcro Johnston: Okay. Thank you.

Kevin Stewart (Aberdeen Central) (SNP): Good morning. I want to look first at the Scottish Enterprise funding. There is a debate about the exact figure, but it is around £30.5 million over the past 10 years or so. Earlier, Mr Davies, you said that there had been no equivalent funding from any agencies south of the border. Is that correct?

Paul Davies: That is correct.

Kevin Stewart: In your earlier testimony, Ms McCreath, you said that a lot of the product development happened thanks to that Scottish Enterprise funding. Is that right?

Debbie McCreath: Yes, in part. The funding was from not just Scottish Enterprise—there was a large amount of investment from the company, too.

Kevin Stewart: However, a huge amount came from public funds in Scotland, and there were no equivalent moneys from south of the border to help Alexander Dennis with that product development.

Debbie McCreath: That is correct, except for the connected autonomous vehicle, which is a UK Government and Scottish Government joint initiative to create the UK's autonomous bus. However, that is a small-scale project.

Kevin Stewart: It is very small-scale. How much of the Scottish R and D money has led to a new product being manufactured at the Scarborough site?

Debbie McCreath: All the products that are manufactured in Scarborough will have been supported through that grant, particularly the new electric buses that we were talking about. Previous grant funding from Scottish Enterprise included support for creating our smartpack low-emission buses, too. It is fair to say that every product at Alexander Dennis has in some way or form been supported by Scottish Enterprise over the past five or 10 years.

Kevin Stewart: Some folk would think that it is kind of ironic that Scottish Government money has gone in to help you guys with R and D and product development and that you are now moving manufacturing to a site south of the border, where you have had no R and D money and no help with product development. Do you see the irony in that?

Debbie McCreath: I acknowledge the irony. From our side, though, we have had to make the decisions that have led to the consultation to be

financially sustainable for the future. It is fantastic that we have had this level of support, and we are incredibly grateful for it, but it is really challenging for us to be able to compete in the UK market into which these products are going.

Kevin Stewart: Can you see why folk would think it grand that you are saying that it is fantastic that you have had that level of support as a company, while, at the same time, the company is saying to its workforce in Scotland and those who have helped fund you in Scotland, "Stuff you—we are moving all our manufacturing south of the border"? Can you understand that feeling?

Debbie McCreath: I can absolutely understand the feeling, but I would like to restate the fact that, if required, we will pay the grant back. It is not as though we are moving and not paying it back. I would just like to clarify that point.

Kevin Stewart: I am sure that we will find out about the remedies later on.

Continuing on the matter of the Scarborough site, I note, Mr Davies, that you said that you have a long-term lease there. How long is the lease, and when was it entered into?

Paul Davies: I think that, potentially, it goes out to 2033. I imagine that it will be a 10-year lease, and it started a couple of years ago. I can check and come back to you on that, but I think that that is correct.

Kevin Stewart: I understand that some warehousing in Scarborough has come into your possession in recent times—I do not know whether it is leased or what. Will you tell us about the decision making in that respect? Why did you decide to enter into that deal, and what leasing is going on there?

Paul Davies: Again, I can come back to the committee on the specifics of the logistics facility. The decision was taken after a rather unfortunate event that we had in Scarborough, when a mini-tornado tore part of the roof off our buildings and caused significant issues and challenges with regard to where we could house materials. We had nine temporary tents on site, and the adoption of the off-site kitting and logistics warehouse was a way of assisting our recovery from that unfortunate event.

10:45

Kevin Stewart: You said earlier that the decision to move production to Scarborough, where you have a leased plant, had nothing to do with asset liquidation of the plants that you own in Scotland.

Paul Davies: Correct.

Kevin Stewart: Okay. What would your decision to stick with a site with a long-term lease and to possibly get rid of your sites in Scotland do to your balance sheet?

Paul Davies: We are not getting rid of both our sites in Scotland. To be clear, we are suspending production at Larbert; we are not intending to do anything else with that site, although we will take away and consider the deputy convener's question whether other options exist around chassis manufacturing. As you heard from the union members yesterday, we have been on a journey to extract ourselves from the Falkirk site, hence the investment in the Larbert facility.

Kevin Stewart: You said earlier that none of the decisions had to do with NFI Group refinancing. Is that correct?

Paul Davies: Correct.

Kevin Stewart: You said earlier that the decisions around Larbert and Camelon were reached in February of this year. Is that correct?

Paul Davies: That is correct.

Kevin Stewart: Would you be willing to provide the committee with the timelines and the decision-making processes of the Alexander Dennis board and the NFI Group board on some of those decisions—that is, the ones that were taken in 2019 on refinancing and the timelines of your decision on Camelon and Larbert versus Scarborough?

Paul Davies: Absolutely.

Kevin Stewart: Will you provide an open book on all that?

Paul Davies: We can show you exactly the timeline and the backdrop to the decision-making process.

Kevin Stewart: That would be useful for the committee and, of course, both Governments.

As you well know, Mr Davies, I have been around the Larbert site with your good self. You said earlier that it was decided that the site should be used for the production of double-deck buses but that you canna do the entire throughput there, because there is no paint shop. Why was it decided not to add certain parts of production to that site when it was developed?

Paul Davies: We had a phase 1 and a phase 2 approach. Phase 1 was to redevelop the site—you would not recognise it since your visit—to build the buses to a pre-paint condition and then move the vehicles to Falkirk for painting and finishing. There was an outline plan and a discussion with Scottish Enterprise about the opportunities and potentials to expand the site to put the painting and finishing capability into it.

It was always going to be a staged approach. However, as I have said, things have changed and, therefore, phase 2 has never been proposed, signed off or really expanded and developed, because we are not in a position to do that now.

Kevin Stewart: I want to turn to international competition. You mentioned some of the difficulties that you face and the employer national insurance contributions hike. How much is that costing the company?

Paul Davies: On an annualised basis, the additional element is £2 million.

Kevin Stewart: That is not an insignificant number.

The additional costs that you would face compared to competitors were skipped over earlier on. Would you say that the energy costs for your company in the UK—which will be the same in Scarborough as they will be in Falkirk—are probably around about four times higher than those of some of your international competitors?

Paul Davies: Correct.

Kevin Stewart: So, that is a real difficulty for the company when it comes to sustainability. With regard to the international supply chain, are battery costs pretty significant?

Paul Davies: Yes, they are. We estimate that we are probably paying double for our batteries per kilowatt than Chinese manufacturers.

Kevin Stewart: Indeed, Chinese manufacturers have a huge amount of Chinese lithium to call upon. Do you think that a UK industrial strategy should really delve into how we can overcome what some folk would say are unfair advantages in competition?

Paul Davies: My personal view is yes. However, the issue needs to be considered quite carefully in the context of valuing local content. Britishvolt, for example, perhaps went too big too soon and was not sustainable. I heard reference made yesterday to the Faraday battery challenge, which we are part of and which explores opportunities to do that type of work in the UK. We are happily supporting that project, because we think that there is value there.

From a bus industry standpoint, given the amount of public money that is going into our sector, doing something on a more boutique or smaller-scale level, such as bus manufacturing, would make a lot of sense. I have said to the UK bus manufacturing expert panel that we must be really careful with such a process, because we cannot afford to do something else that makes us even more uncompetitive. I agree with the principle as a sensible and logical way forward,

but it must be carefully considered. Otherwise, it might make a difficult situation worse.

Kevin Stewart: Okay. On other aspects of the international scenario, would you like to highlight to the committee areas where additional subsidy for other manufacturers exists elsewhere, or elements in which you cannot be competitive, because of the level of subsidy?

Paul Davies: I do not have the specifics of that. As I think that I answered earlier, I can point only to the European Commission investigation and some of the actions that have come out of that. I have not read its report in detail, but I know that it uncovered state help, because it resulted in tariffs being applied. In general, tariffs would just apply if you did not furnish the inquiry with information.

Battery costs, the cost of energy for manufacturing and the cost of employment are the key elements that make it challenging, when you compare Alexander Dennis against a domestic Chinese manufacturer.

Debbie McCreath: Last year, we contemplated taking forward an investigation with the UK trade remedies authority in light of the European Commission investigation into automotive practices. However, when we investigated that, we found that the onus was on industry, and we were told, too, that after paying all the legal fees associated with putting an application together to unearth all those challenges, we might not get the information that we were requiring. You might spend seven figures on a legal retainer and come out of the process 18 months later without anything.

Kevin Stewart: So, basically, the costs of getting investigations done should be much lower if we are to get to grips with some of those things. Is that what you are saying?

Debbie McCreath: That would be helpful, particularly for us. As the committee is aware, we restructured last year, too. If your company is in a challenging financial position, having to find additional funding for an investigation is really quite tricky.

Paul Davies: There is another important element to consider. We were advised that such activity would have to be industry-wide and not something that we did independently. Our primary UK competitor, with whom we work on subsidy control and local content, has links to another manufacturing and equipment business that embarked on such an action, and it did not get anything out of it. Therefore, it does not make sense that it would have any appetite to join us in our action.

Kevin Stewart: Thank you very much for coming here today. I am sure that you understand

why some of the lines of questioning have been pursued. It is immensely frustrating for folk to hear that Scotland has invested in a company and that the Government south of the border has not, and now that company is moving south of the border. That said, I welcome your comment today that Alexander Dennis and NFI Group will be completely and utterly open book about some of the decisions that you have taken.

Paul Davies: Can I clarify one point that I made to you earlier? The business review that we undertook was in February, but we did not go through a board approval process until later, in May.

Kevin Stewart: I am sure that that will all come out through the open-book approach.

The Convener: You mentioned the working group that has been set up between the UK Government and Scottish Government, and which you are not part of. Is there any ask that the company has made of the UK and Scottish Governments that you have not put on the record today? We have touched on the orders related to the Subsidy Control Act 2022. Is there anything else that you have not put on the record?

Debbie McCreath: We have captured everything related to the consultation. We have talked about the two short-term asks: the furlough scheme and the potential creation of fresh orders. Then, when it comes to the medium to longer term, we ask that local content and subsidy control be considered and that we try to find a solution to those problems.

In our submission to the UK comprehensive spending review, we asked through our joint group—as Paul Davies has said, we have down at Westminster an all-party group in which we work with our UK competitor—for buses to be considered as critical national infrastructure. We wanted that to be able to protect and safeguard the industry, and we wanted the industry to be seen as something that we need to nourish and protect. We are keen to make the committee aware that we previously asked for that.

The Convener: The decision will have a massive social and economic impact, particularly in the Falkirk and Larbert areas. What will be the scale of that impact? We know that 400 direct jobs will be lost as a result of the decision. What will be the impact on supply chain jobs? I have seen 1,600 mentioned, but I am not sure where that figure came from. What assessment have you made of the impact of the decision on those communities and of the number of jobs that will be lost in those communities?

Debbie McCreath: I am happy to share our economic impact analysis with the committee. Based on current modelling, the estimation is that

370 jobs will be affected in the wider supply chain, which is part of the challenge that we would face.

As for the effect on communities, the only communities about which I can give you some clarity at this time are in those areas of Scotland where Alexander Dennis people are employed. The majority of people are Falkirk-based, and North Lanarkshire is the next largest area where we have people, so it is predominantly in those two community regions that we would expect to see the largest impact, if what is proposed in the consultation comes to pass.

The Convener: Based on those figures, the impact will obviously be very substantial.

Daniel Johnson has a final supplementary question.

Daniel Johnson: I would just like to get clarification on a couple of points that arise from weaving together the analysis and some of the numbers that we have. Obviously, we are clear about total capacity, which is 1,600 orders, with 400 in Scotland. You say that you will need an additional number of orders—around 300—on an on-going basis, which would mean that a total output of about 1,400 would be required across all sites to keep the Scottish sites open. Is that roughly right?

Paul Davies: Yes. Scarborough's capacity is about 1,200, but, as I said earlier, that assumes a level load and everything coming in at the right time.

Daniel Johnson: So, the total order book would amount to approximately 1,400.

Paul Davies: Yes, 1,400 or 1,500—something like that.

Daniel Johnson: When was the last time you had an annual output of 1,400?

Paul Davies: Last year. We delivered 1,400 buses to the market in 2024.

11:00

Daniel Johnson: That split suggests that about a quarter of your capacity is in Scotland and three quarters is in Scarborough. Is that roughly it?

Paul Davies: Yes, but it is complex.

Daniel Johnson: Is it difficult, because of the different product lines?

Paul Davies: The issue is not the product lines. It is complex because, in recent years, we have been carrying a level of non-productive time in which we have not been making buses. We have been retaining skills deliberately.

Daniel Johnson: So, it is capacity rather than throughput. I get that.

Before the various stages of investment, was the split always the same, or has there been a tilt towards Scarborough in the balance of capacity?

Paul Davies: I do not think that the split will have changed much, but I am happy to look back in time and give you the split in the volumes from both sites.

Daniel Johnson: Please do so, especially the split before the £8 million investment—or whatever it was. I am sorry—I forget the figure. What did that investment do to the split between Scarborough and Scotland?

Paul Davies: I do not think that it made a massive impact. It was negligible.

Daniel Johnson: That is great—that was all I wanted to clarify. Thank you very much.

The Convener: I very much thank both our witnesses for taking the time to come to the committee this morning.

That brings us to the end of the evidence session, and we will now move into private session.

11:02

Meeting continued in private until 11:24.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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