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Cabinet Secretary for Finance, Economy and Fair Work,

## **Ferguson Marine Programme Review Board Update**

### **Purpose**

1. To provide the Cabinet Secretary with an update on the work of the Programme Review Board for Vessels 801 and 802.

### **Priority**

2. **Urgent** – The Cabinet Secretary is invited to note the contents of this paper and the attached Report ahead of his statement to Parliament on December 17, 2019.

### **Background**

3. Following the administration of FMEL and Scottish Ministers subsequently taking control of the business, the Cabinet Secretary established a Programme Review Board (PRB) to secure the most effective delivery programme to completion in terms of time, cost and impact on the workforce by providing an appropriate level of review and challenge. This included consideration of the work required to complete the vessels in addition to the resources and expertise necessary to fulfil these requirements, using best endeavours to deliver appropriate challenge and scrutiny.

### **Updated Cost and Programme Report for Vessels 801 and 802**

4. Following the receipt of a Updated Cost and Programme Report (See Annex A) from the Turnaround Director, the PRB met on December 12<sup>th</sup>. The primary objective of this meeting was to provide an opportunity for the Board to consider the Report in some detail.
5. The Report was initially due to be provided to Ministers by the end of October, but, having reviewed an initial draft, as Chair of the Board, I considered that further work needed to be undertaken both to better articulate the residual risk associated with the programme and to ensure that risk was more thoroughly analysed in terms of its impact on cost and programme for the vessels. Since then, the Turnaround Director and his team have undertaken significant additional analysis to identify a cost and programme window in which they can be confident that the Vessels can be delivered within.

### **Delivery Challenges**

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6. The Report identifies a number of delivery challenges due to the condition that the vessels were in at the point that SG took control of the yard, the approach to project delivery and the build-out process issues. These include:
- the absence of sound management information on which to base any assessment of progress to date and critical issues with both the design process for the vessels and the approvals process for that design. Consequently, significant work was required simply to establish the overall status of the design itself. We have now determined that it is, in fact, several years behind programme and the design will be a key area of work going forward.
  - project planning was largely absent and this resulted in extensive, out of sequence and often abortive work, being carried out. Whilst this may give the appearance that good progress has been made, in reality, key elements of this work will have to be removed and reconstructed in the correct sequence, to allow other areas to be completed. This out of sequence approach has also created problems for the workers in the yard. Due to a lack of planning, considerable time was spent by workers, simply locating materials and plant, leading to serious inefficiencies in the build-out process. This was further compounded by the fact that less than 5% of the basic design had received the necessary approvals. There was no evidence of credible budgets being set or managed for any of the work elements.
  - inadequate controls on sub-contracted resource and materials. This had a significant impact on the progress and the quality of the design and although individual work packages appeared to be progressing, there was little by way of integration of those packages into an overall design for either of the vessels.
  - poor control of materials has created a situation where there is no clear inventory and materials have been stored in unsuitable conditions. Due to the time lag between purchasing certain mechanical and electrical elements in particular, some of the warranties will expire prior to their inclusion in the overall construction of the vessels and consequently, prior to any vessel testing.
  - quality control through the build-out process has been poor. There was no mechanism in place to inspect the fit-out of the vessels and to appropriately rectify defects, where they occurred.

### **Build-out Programme and Cost Estimates**

7. The Turnaround Director and his team have indicated that the updated cost estimates to complete the vessels are as follows:
8. The price breakdown per vessel is:
- Vessel 801                      £32.8m
  - Vessel 802                      £45.9m
  - Overheads                      £31.6m

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9. When risk is applied to these estimates, it generates a range of between £110.3m and £114.3m. It was confirmed that the report sets out the cost to complete the vessels, with no element of profit to the business assumed.
10. The delivery range for the vessels is :
  - Vessel 801 – October to December 2021
  - Vessel 802 – July to October 2022.
11. The programme indicates that progress on the engine room and the diesel generator room is critical and in order to complete these areas within the period identified in the programme, a number of actions will need to be taken. These include:
  - Completion of the design
  - Manufacture and installation of pipes. Due to the scale of the pipework, this work will need to be subcontracted and double-shifted.
  - Commissioning of propulsion systems through to sea trials.
12. Due to the nature of the work, there is little further scope for enhancing the programme in these areas.
13. The PRB heard that the solutions identified in this Report, including the use of subcontracted elements, are primarily designed for the build-out of 801 and 802 and that further consideration would be required before a decision could be made on the continued use of these solutions elsewhere in the business.

### **Risk:**

14. Although considerable work and effort has gone into understanding the current status of the vessels, there are still a number of areas where further information will be required in order to fully understand the implications on the programme. These include:
  - the condition of the underside of Vessel 801, where it will need to be inspected in a dry dock; the extent to which the pipework and engine rooms will be affected by out of specification fittings;
  - the full extent of re-work required across the vessels,
  - the ability to successfully commission equipment where warranties have expired;
  - the true impact of poor materials control;
  - the impact that public procurement may have on timescales and the ability to recruit, train and retain staff with the correct skills to successfully deliver the vessels.
15. This is not intended to be an exhaustive list, but it illustrates that there remain a number of unknowns at present. More information will become available about these risks as the work to deliver the vessels progresses, however at this stage, it is not possible to be more definitive.
16. The PRB queried whether, in the context of the risks identified, the Turnaround Director was confident that both ferries could be delivered within

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the cost and programme windows that were set out within the Report and the Cost Risk Assessment. He indicated that he was satisfied that a sensible balance of risk and opportunity had been developed and consequently he confirmed that he was confident in the likelihood of delivery. He referred to the fact that amongst other things, delivery was contingent on modest productivity improvements, which he felt were deliverable; capacity and capability issues that are currently being addressed and management changes that are well underway.

17. In response, the Board recognised the analysis that had been undertaken and received confidence and assurance work that the Turnaround Director and his team have undertaken.
18. The PRB also discussed warranties for equipment and it was acknowledged that these warranties generally related to good quality equipment from credible manufacturers. Many of these warranties will have expired at the point that the equipment is commissioned. It was noted that, although there is a warranty in the novated contract with CMAL, no provision had been made for costs arising from either warranties or the obsolescence of materials in the cost estimate.

### Remediation Plan

19. The cost and programme estimates make provision for a Remediation Period to May 2020, during which the Turnaround Director and his team will aim to return the vessels to the condition that we may have otherwise expected to find them in at the time of the administration. They will also focus on the development and implementation of key business plans, such as project and programme controls; change management; defect management and materials management.

### Progress to date on the Remediation Plan

20. The PRB were provided with an update on progress to date of the Remedial Phase.
  - From an organisational perspective, significant changes have already been made to the management team and further appointments are being considered.
  - There has been good evidence of partnership working between Fergusons, CMAL and CalMac
  - Recruitment of engineering resources is underway and consideration is being given to a sub-contracting strategy.
  - There has been considerable focus on on-site contractors. Whilst this work is on-going, it was recognised that the work of some contractors will likely reduce over the coming weeks and that alternative resources may have to be identified. This work is on-going.
  - Significant work is underway to develop and implement critical processes for planning and control within the business. This will continue over the Remediation period.

**PRB Conclusions**

- 21. The PRB was content to endorse the diagnostic work that the Ferguson team had undertaken and confirmed that they received confidence and assurance that the work done has followed standard industry practice. They acknowledged the rigour that had gone into the work and recognised the effort that had been expended in order to provide this level of information within the time available.
- 22. Similarly, the Board recognised that there were some areas where it was not possible to ascertain any further information at that stage and that these should be treated as risks which will require active management going forward.
- 23. The Board recognised that further consideration would need to be given to the future governance of the business and also to how the business will interact with its key stakeholders including CMAL as client under the contract.
- 24. The PRB highlighted that scope of the Report is such that it does not cover recommendations on future structure or manning beyond the costed elements required to predict a cost and time to complete. These areas are the subject of on-going work within the SG Ferguson Marine Response team.
- 25. It was recognised that the SG provided the Board with the resources (the Turnaround Director and his team and CMAL) to undertake the detailed analysis. These individual/organisations were deemed professionally competent to complete the task. The Board therefore oversaw their work in that context and in good faith.

**Recommendation**

- 26. You are invited to note this update and the attached Report.

Michelle Rennie



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