

Richard Rollison  
Directorate for Economic Development  
21 August 2017

Cabinet Secretary for Finance and the Constitution

## **FERGUSON MARINE ENGINEERING LIMITED (FMEL)**

### **Purpose**

1. To update you on the current financial position of Ferguson Marine Engineering Limited (FMEL) and our urgent work with them **[Redacted]**.

### **Priority**

2. Immediate

### **Background**

3. Both yourself and DG Economy have had a number of discussions with Jim McColl regarding FMEL's work for CMAL and the company's financial position. As you are aware, following a procurement exercise, FMEL was commissioned by Caledonian Maritime Assets Ltd (CMAL) to provide two ferries, the 801 and 802, for a total contract cost of £97m. **[Redacted]**

4. **[Redacted]**

5. **[Redacted]** further consideration of this option is provided in Annex A.

6. FMEL have continued to press for action on two fronts to support their cash flow management:

**[Redacted]**

**[Redacted]**

7. On 10 August we commissioned **[Redacted]** to provide a robust assessment of FMEL'S financial situation and consider options for public sector support. We have been liaising with **[Redacted]** on a daily basis and they provided an interim report on FMEL's short term financial situation and outline options for possible public sector support on 17 August. **[Redacted]** have discussed and shared this report with FMEL.

8. **[Redacted]** are now doing further urgent work to drill down in to FMEL's short term financial situation, **[Redacted]** with SG officials and FMEL, to examine options for public sector support.

### **Issues and Next Steps**

9. **[Redacted]**

10. [Redacted]

11. [Redacted]

12. Annex A outlines the potential options for public sector intervention to address these issues and, following discussion between [Redacted] and officials (SGLD, Finance, Transport Scotland, Economic Development) on 18 August and consideration of state aid and procurement issues, the viability or otherwise of these options.

13. [Redacted]

14. [Redacted]

[Redacted]

15. We are continuing to liaise with [Redacted] on a daily basis and will be meeting with [Redacted] and FMEL over the next few days to work through the immediate and medium term options. As part of that we will emphasising that any public sector support will need to be met by some financial commitment by FMEL, Clyde Blowers Capital or an alternative private sector source to sharing the cost and risk with the Government and/or its agencies.

### Recommendation

16. You are asked to note the above and agree that officials are to continue to explore options for possible public sector intervention.

Richard Rollison  
Directorate for Economic Development  
21 August 2017

| Copy List:   | For Action | For Comments | For Information    |                  |                   |
|--|------------|--------------|--------------------|------------------|-------------------|
|  |            |              | Portfolio Interest | Constit Interest | General Awareness |
| Cabinet Secretary for Finance and the Constitution       | X          |              |                    |                  |                   |
| Lord Advocate  |            |              |                    |                  | X                 |
| First Minister   |            |              |                    |                  | X                 |
| Cabinet Secretary for the Rural Economy and Connectivity |            |              |                    |                  | X                 |
| Cabinet Secretary for Economy, Jobs and Fair Work        |            |              |                    |                  | X                 |
| Minister for Transport and the Islands                   |            |              |                    |                  | X                 |

DG Economy  
Permanent Secretary  
Gordon Wales, CFO  
DG Finance  
DG Scottish Exchequer  
Mary McAllan, Director DED

**[Redacted]**

David Anderson, State Aid

**[Redacted]**

Roy Brannen, CE TS  
Richard Rollison, DED III

**[Redacted]**

Murray Sinclair, Director SGLD

**[Redacted]**

Colin Troup, LSLA

**[Redacted]**

Mike Baxter, TS

**[Redacted]**

Liz Lloyd

Colin McAllister

Stewart Maxwell

## Options for possible public sector intervention

[Redacted] Interim Report identifies a range of potential options to help FMEL address cash flow and working capital issues. The viability of pursuing these options has been assessed as follows:

[Redacted]

[Redacted]

**From:** Rollison R (Richard)

**Sent:** 25 August 2017 09:56

**To:** [Redacted] Rollison R (Richard); [Redacted]

**Subject:** MEETING BETWEEN SCOTTISH GOVERNMENT, FMEL AND [Redacted] – 23 AUGUST 2017

All

Primarily for the purpose of having a record of our actions from Wednesday see below:

### MEETING BETWEEN SCOTTISH GOVERNMENT, FMEL AND [Redacted] – 23 AUGUST 2017

#### Present

FMEL/CBC

[Redacted]

[Redacted]

#### SG

Richard Rollison, Industries

[Redacted]

#### Note

Representatives from SG and their advisors [Redacted] met with FMEL on 23 August to consider and discuss the report prepared by [Redacted] on the current financial situation of FMEL and options for potential Government intervention. It was agreed that:

FMEL would provide SG with:

[Redacted]

SG would further consider the legal, procurement and risk issues associated with all the remaining options.

**FERGUSON MARINE ENGINEERING LIMITED**  
**MEMORANDUM: CONTRACT 801/802 TECHNICAL ASSESSMENT**

**[Redacted]**

Richard Rollison  
Deputy Director  
Innovation, Industries and Investment Division  
Directorate for Economic Developemnt  
Scottish Government

**[Redacted]**



**From:** [Redacted]  
**Sent:** 23 August 2017 18:02  
**To:** [Redacted]  
**Cc:** [Redacted] Rollison R (Richard)  
**Subject:** FW: CONFIDENTIAL - COMMERCIALY SENSITIVE - Ferguson Marine - economic impact  
**Importance:** High  
**Sensitivity:** Confidential

Hi Kyle,

With many thanks to **[Redacted]** – we've put together the note attached. This is just a first cut so please come back to us if you require anything more detailed.

Happy to discuss.

Many thanks

**[Redacted]**

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**From:** [Redacted]  
**Sent:** 18 August 2017 16:06  
**To:** [Redacted]  
**Cc:** Rollison R (Richard)  
**Subject:** CONFIDENTIAL - COMMERCIALY SENSITIVE - Ferguson Marine - economic impact  
**Importance:** High  
**Sensitivity:** Confidential

**[Redacted]**

**[Redacted]** - further to your conversation with Richard, we're interested in getting some economic modelling completed in terms of the impact of Ferguson Marine Engineering on the local / regional economy.

**[Redacted]** - also understand that this falls within your area of expertise.

**[Redacted]**

Grateful therefore if you could confirm the information that we would need to supply to enable this analysis to be conducted, and whether these timescales are achievable.

**[Redacted]** – appreciate that this may be coming somewhat out of the blue, and give me a ring for any relevant background. Also worth noting that this is not for onward circulation.

Thanks.

Kind regards

**[Redacted]**

## **Overview of Inverclyde and Shipbuilding Employment**

### **Purpose**

- This note gives an overview of the Inverclyde economy in a Scottish context, and on the wider shipbuilding sector. It also provides broad estimate of the economic value of linkages between the employment within a commercial shipbuilder in Scotland and the wider Scottish economy.

### **Local Economic Context (see Annex A for more detail)**

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- Inverclyde performs relatively poorly against the Scottish average on unemployment, and has lower rates of economic activity and employment than Scotland as whole. Inverclyde also has a relatively high share of deprived areas.
- The Inverclyde labour market provides around 30,000 jobs – almost half of these jobs are concentrated in the following three industry sectors: Health (6,800 jobs), Retail/Wholesale (4,700) and Administrative & Support Services (3,000).
- In 2016, weekly earnings for full-time employees (excluding overtime) were slightly higher for those resident in Inverclyde (£524.1) compared to those for Scotland as a whole (£512.6).

### **Sector Context (see Annex B for more detail)**

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- In 2015, there were 7,000 Scottish shipbuilding jobs, representing 23% of shipbuilding jobs GB-wide and representing 4% of all Scottish manufacturing jobs.
- Turnover in the Scottish shipbuilding sector stood at £1.4 billion in 2014, and direct GVA was approximately £0.5 billion (4% of Scottish manufacturing GVA).
- In 2016, gross median weekly earnings, *excluding overtime*, of full-time workers employed in the building of ships and boats sector (SIC 30.11) in Scotland was £518.2. This was slightly higher than the corresponding figure across all sectors in Scotland (£512.6).

**[Redacted]**

## **Annex A - Key Economic and Labour Market Indicators**

The table below presents key inclusive growth performance for Inverclyde, compared to Scotland. These indicators assess performance across a number of dimensions to assess performance in economic growth, and include factors which determine the ability of local residents to access and participate in the labour market, and/or those facing particular barriers within the labour market.

| Outcome   | Indicator  | Inverclyde | Scotland |
|---|--|------------|----------|
| Economic Performance  | Business start-up rate (per 10,000 resident adults)                                  | 38         | 49       |
|   | 3-year survival rate for newly born businesses 2012 (%)                              | 65.8%      | 62.0%    |
|   | Expenditure in R&D per head (£) 2015   | £51        | £162     |
|   | Growth in R&D, 2014 to 2015  | -8.5%      | -0.4%    |
|   | GVA per head, 2015 (£)   | £18,999    | £23,685  |
|   | Change in GVA per head 2007 to 2015 (%)  | 13%        | 14%      |
| Labour Market Access  | Employment rate (16-64) (%)  | 71.5%      | 73.4%    |
|   | Unemployment rate (16+) (%)  | 5.6%       | 4.5%     |
|   | Claimant count rate (16-64) (%)  | 4.9%       | 2.4%     |
|   | Economic activity rate (16-64) (%)   | 75.8%      | 76.9%    |
|   | Female employment rate (%)   | 71.0%      | 70.0%    |
|   | Economically inactive who want a job (%)   | 25.3%      | 24.5%    |
|   | Economically inactive long-term sick (%)   | 39.4%      | 27.9%    |
|   | Jobs density 2015  | 0.66       | 0.79     |
| Fair Work   | % of LA datazones within Scotland's 15% most deprived (SIMD)                         | 36         | 15       |
|   | Median weekly earnings (excl overtime) - full-time employees (£) - 2016              | £524.10    | £512.60  |
|   | % of all employees (18+) that work in the LA with hourly pay below the Living Wage   | 22.1%      | 20.1%    |
|   | Median hourly pay gap (excluding overtime) for full-time male and female workers (%) | -3.0%      | -6.9%    |
|   | Employment in "high skilled" occupations (%)   | 40.9%      | 42.6%    |
|   | Employment in "low paid" sectors (%)   | 36.2%      | 33.3%    |
| People  | Individuals self-reporting health as 'very good' (%) 2011 Census                     | 50.4%      | 52.5%    |
|   | Working age (change by 2029)   | 16.6%      | 4.4%     |
|   | Degree qualification (%)   | 22.1%      | 28.9%    |
|   | No qualifications (%)  | 14.4%      | 10.0%    |
|   | % of school leavers in positive destination 2015/16                                  | 91.1%      | 91.4%    |
|   | % of children in poverty (after housing costs)                                       | 28%        | 28%      |
|   | Life expectancy (male) 2013-15 (years)   | 75.4       | 77.1     |
| Place   | Life expectancy (female) 2013-15 (years)   | 80.4       | 81.1     |
|   | Households with home internet access (%) 2015  | 76%        | 80%      |
|   | % of individuals fairly or very satisfied  |            |          |
|   | public transport   | 72%        | 74%      |
|   | health services  | 80%        | 83%      |
|   | schools  | 90%        | 74%      |
|   | People living within 500m of a derelict land site (%)                                | 54.0       | 30.3     |
|   | Fuel poverty 2013-2015 (% of households)   | 41%        | 34%      |
|   | % of dwellings not "energy efficient" 2013-2015                                      | 39%        | 34%      |
|   | Homes that fail the Scottish Housing Quality Standard 2012-2014 (%)                  | 56%        | 47%      |
| Individuals reporting fairly or strong sense of belonging to community 2015 (%) | 82%  | 77%        |          |

## Annex B – Shipbuilding – Recent Trends

*The shipbuilding sector is defined using the following SIC (2007) codes: Shipbuilding: 30.11 (Building of ships and boats) and 33.15 (Repair and maintenance of ships and boats).*

### Employment (2015)

The shipbuilding sector in Scotland employed 7,000 people in 2015, an 8 per cent decrease compared to 2014, when employment in the sector was 7,600. The shipbuilding sector in Scotland accounted for 23 per cent of total Shipbuilding employment in Great Britain.



## Employment in Scotland

|   | Employment     |                | % of GB<br>employment |
|---|----------------|----------------|-----------------------|
|   | 2014           | 2015           | 2015                  |
| Building of ships and floating structures (SIC 30.11) | 6,600          | 6,200          | 27%                   |
| Repair and maintenance of ships and boats (SIC 33.15) | 1,000          | 800            | 11%                   |
| <b>Total Shipbuilding</b>                             | <b>7,600</b>   | <b>7,000</b>   | <b>23%</b>            |
| <i>Total Manufacturing</i>                            | <i>189,000</i> | <i>181,000</i> | <i>8%</i>             |

## Turnover and GVA (2014)

Scottish shipbuilding contributed to a significant proportion of the UK shipbuilding industry, accounting for around 30 per cent of turnover and 29 per cent of GVA. Turnover in the Scottish shipbuilding sector stood at £1.4 billion in 2014, and GVA was approximately £0.5 billion.

The top three local authority areas in terms of shipbuilding GVA (Glasgow City, Aberdeen City and Fife) accounted for 22 per cent of the business sites, 74 per cent of employment, 84 per cent of turnover and 80 per cent of GVA in the sector<sup>1</sup>.

## Earnings (2016)

In 2016, gross median weekly earnings, *excluding overtime*, of full-time workers employed in the building of ships and boats sector (SIC 30.11) in Scotland was £518.2. This was slightly higher than the corresponding figure across all sectors in Scotland (£512.6).

### Sources of statistics and SIC code definitions

**Employment** – Business Register and Employment Survey, **GVA and turnover** – Annual Business Survey, Scottish Annual Business Statistics; **Earnings** – Annual Survey of Hours and Earnings.

**From:** Rollison R (Richard)

**Sent:** 29 August 2017 19:30

**To:** Cabinet Secretary for Finance and the Constitution; [derek.mackay.msp@parliament.scot](mailto:derek.mackay.msp@parliament.scot); Cabinet Secretary for Economy, Jobs and Fair Work; Minister for Transport and the Islands; DG Economy; Chief Financial Officer; McAllan M (Mary); **[Redacted]** Maxwell S (Stewart) (Special Adviser); McCaig C (Callum); **[Redacted]**

**Cc:** 'humza.yousaf.msp@parliament.scot' ([humza.yousaf.msp@parliament.scot](mailto:humza.yousaf.msp@parliament.scot))

**Subject:** RE: 10:00 - 11:15 FMEL Update Discussion

In advance of our meeting tomorrow morning a suggested agenda of:

1. Introductions (**[Redacted]**)

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<sup>1</sup> It is not possible to supply an individual list of local authorities with shipbuilding activities for confidentiality reasons.

2. **[Redacted]** overview of financial situation and 'walkthrough' of possible outcomes from perspective of SG, FMEL and Clyde Blowers Capital.
3. Discussion on way(s) forward

As background, following discussions with Jim McColl yesterday and today as well as on-going discussion with **[Redacted]** and CMAL today Ministers will wish to note that:

**[Redacted]**

A two page factual note on both those 'asks' and the significant legal, procurement and financial challenges they present, is attached.

**[Redacted]**

I trust this is helpful.

**[Redacted]**

Richard

Richard Rollison  
Deputy Director  
Innovation, Industries and Investment Division  
Directorate for Economic Development  
Scottish Government

**[Redacted]**



**From:** Rollison R (Richard)

**Sent:** 01 September 2017 19:34

**To:** Cabinet Secretary for Finance and the Constitution

**Cc:** McAllan M (Mary); **[Redacted]**; Maxwell S (Stewart) (Special Adviser) McCaig C (Callum); Brannen R (Roy); **[Redacted]** Lloyd E (Elizabeth); Cabinet Secretary for Economy, Jobs and Fair Work; Minister for Transport and the Islands; Evans L (Leslie); Cabinet Secretary for Finance and the Constitution; **[Redacted]**; DG Economy; Lord Advocate; Troup C (Colin) (Dr); First Minister; DG Economy; Evans L (Leslie); Chief Financial Officer; Maxwell S (Stewart) (Special Adviser); First Minister; DG Scottish Exchequer Mailbox

**Subject:** RE: IMMEDIATE - COMMERCIALY CONFIDENTIAL - FERGUSONS MARINE ENGINEERING LIMITED (FMEL)

**I ATTACH A SUBMISSION FROM DG ECONOMY**

PS/Cabinet Secretary for Finance

## **IMMEDIATE - COMMERCIALY CONFIDENTIAL - PROPOSED LOAN AGREEMENT WITH FERGUSONS MARINE ENGINEERING LIMITED (FMEL)**

### **Purpose**

1. To seek your agreement to provide a commercial loan facility of £15m to Ferguson Marine Engineering Limited (FMEL) to **[Redacted]**.

### **Timing**

2. **Immediate**

### **Background**

3. My submission of 21 August updated you on the financial position of FMEL and our work with **[Redacted]** to support the company. My subsequent note of 1 September updated you on discussions and negotiations with FMEL and Clyde Blowers Capital about **[Redacted]**.

### **Proposed Loan Agreement**

4. Following further discussions with Jim McColl and representatives of FMEL and CBC, and with commercial and legal advice from **[Redacted]** and **[Redacted]** respectively, we are proposing to provide a commercial loan of £15m to FMEL. Subject to your agreement, we will instruct **[Redacted]** to finalise a loan agreement between the Scottish Government and FMEL on standard commercial terms with the following conditions

**[Redacted]**

### **Transparency**

5. Although we do not publish details of individual loans I expect that details of the loan will be made public in due course because it is right that we are transparent and as a consequence of audit scrutiny of either i) a general ferries audit or other associated procurement review; or ii) an audit of Transport Scotland accounts for 2017-18 (although it is of course the SG and not TS making the payment), or; iii) audit of the SG accounts for 2017-18. The audit process for ii and iii would of course not begin until the beginning of 2018-19. The more likely way this would be reported is in FMEL's accounts – they have reported the source of previous loans in the accounts they lodge with Companies House. These are of course available for public consumption, but like the SG this would be for the financial year covering the date of the transaction(s). This would likely not be until much further into 2018.

### **Budget**

6. Whilst we expect the loan to be drawn down in tranches, with a first payment of £6m likely on Monday 4 September, there is a clear expectation that it will fall entirely within the scope of the 2017-18 financial year. In considering whether you are prepared to provide this facility, it is therefore important to consider the source of the funds and associated opportunity costs.

**[Redacted]**

## **Risks**

**[Redacted]**

8. This advice has been agreed with the Chief Financial Officer and SGLD.

## **Recommendation**

9. You are asked to agree to the provision of a commercial loan of £15m to FMEL as set out in para. 4 above.

## **DG ECONOMY**

**From:** Rollison R (Richard)

**Sent:** 01 September 2017 14:51

**To:** First Minister

**Cc:** Rollison R (Richard); McAllan M (Mary); **[Redacted]**; Maxwell S (Stewart) (Special Adviser); McCaig C (Callum); Brannen R (Roy); **[Redacted]** Lloyd E (Elizabeth) Cabinet Secretary for Economy, Jobs and Fair Work; Minister for Transport and the Islands; Evans L (Leslie); Cabinet Secretary for Finance and the Constitution; **[Redacted]**; DG Economy; Lord Advocate; Troup C (Colin) (Dr); First Minister; DG Economy; Evans L (Leslie); Chief Financial Officer; Maxwell S (Stewart) (Special Adviser)

**Subject:** IMMEDIATE - COMMERCIALY CONFIDENTIAL - FERGUSONS MARINE ENGINEERING LIMITED (FMEL)

PS/First Minister

## **IMMEDIATE - COMMERCIALY CONFIDENTIAL - FERGUSONS MARINE ENGINEERING LIMITED (FMEL)**

1. This e-mail updates you on recent discussions and on-going negotiations with FMEL and Clyde Blowers Capital (CBC) regarding the financial situation of FMEL.

2. FMEL is contracted to provide two ferries, the 801 and 802, to CMAL at an agreed contract price of £97m. **[Redacted]**

3. My submission of 21 August updated Ministers on the financial position of Ferguson Marine Engineering Limited (FMEL) and our urgent work, **[Redacted]**.

4. There has been extensive correspondence with FMEL and CBC over the last few weeks including face to face discussions with the CBC team on X and Y August and with Jim McColl on 28 August and a subsequent telephone conversation between Liz Ditchburn and Jim on 29 August.

**[Redacted]**

6. A note on both issues is attached.

7. Given the above, **we are proposing to provide FMEL with an immediate commercial (thereby compliant with state aid) loan of £15m on the basis of confirmation of a viable 5 year business plan for FMEL** which we expect to receive from **[Redacted]** on Monday. **[Redacted]**

8. **[Redacted]**.

9. In broad terms, we expect the following conditions to be attached to the loan:

**[Redacted]**

14. I trust this is helpful.

Richard Rollison  
Deputy Director  
Innovation, Industries and Investment Division  
Directorate for Economic Development  
Scottish Government

**[Redacted]**