

## FOI/18/03135 – FOI ON FMEL CASH PRESSURES

**“Please provide all correspondence, both internal and external, held by the Scottish Government, covering the time period 1 September 2016 to 31 July 2017, relating to the challenges and cash pressures that the contract for 801 and 802 have been placing on Ferguson Marine Engineering Limited.”**

### **Document 1: Submission from [REDACTED] to Cab Sec EJFW, Cab Sec Finance and Transport Minister on the ferries contract**

[REDACTED]  
Ferries Unit  
22 February 2017

**Cabinet Secretary for Economy, Jobs and Fair Work  
Cabinet Secretary for Finance and the Constitution  
Minister for Transport and the Islands**

#### **FERGUSON MARINE ENGINEERING LIMITED - SHIPBUILDING CONTRACT TWO 100 METRES DUAL FUEL FERRIES**

##### **Purpose**

1. To provide Ministers with an update in relation to progress on the two Dual Fuel Ferries that are currently under construction at the Ferguson Marine Engineering Ltd (FMEL) shipyard in Port Glasgow. [REDACTED].
2. To respond to a recent query from the Cabinet Secretary for Economy, Jobs and Fair Work [REDACTED].

##### **Timing**

3. Routine, although the narrative in the submission will be helpful background to the planned meeting between Mr Jim McColl, Clyde Blowers Capital, the owners of FMEL, and the Cabinet Secretary for Economy, Jobs and Fair Work and the Cabinet Secretary for Finance and the Constitution on Thursday 2 March 2017.

##### **Background**

4. In November 2015, CMAL placed orders at FMEL for the construction of two 100m Dual Fuel Ferries (LNG and Marine Gas Oil), currently referred to as Vessels 801 and 802.
5. The delivery dates of the vessels at contract signing were
  - Vessel 801 – 25 May 2018 – for subsequent deployment on the Arran service to Brodick.
  - Vessel 802 – 26 July 2018 – for subsequent deployment on the Uig Triangle service, serving Tarbert, Harris and Lochmaddy, North Uist service.
6. The value of the core contract is £97m: , £48.5m per vessel. In addition to the FMEL contract costs there are other costs associated with these vessels – design, construction supervision and mobilisation relating to the CMAL supervision team and the secondment of vessel based personnel from CalMac. The total cost Scottish Ministers is forecast at [REDACTED].

7. [REDACTED]:-

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

8. [REDACTED].

### Next Steps

9. CMAL continue to be supportive of FMEL, from both a technical [REDACTED]. It is clearly in all our interests to see FMEL flourish. Clyde Blowers Capital (CBC) are to be commended in their support of FMEL, as they continue to construct these two vessels for CMAL and for the substantial investment in modernising the yard.

10. A meeting has recently been arranged between Mr McColl and the Cabinet Secretary for Finance and the Constitution and the Cabinet Secretary for Economy, Jobs and Fair work on 2 March 2017 where the matters explored in the submission can be discussed. Following the meeting with Ministers it is proposed that a delegation of Economy, Transport and Finance officials could usefully meet with FMEL/CBC [REDACTED].

11. [REDACTED].

12. **Ministers are asked to note this update in relation to**

- **progress on the construction of the two vessels currently being built at FMEL [REDACTED].**
- [REDACTED].

[REDACTED]

Ferries Unit

22 February 2017

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Cabinet Secretary for the Rural Economy and Connectivity			X		X
DG Economy DG Finance Roy Brannen, CE TS PS Transport Scotland Gordon Wales, Director of Financial Management					

TS Directors  
[REDACTED]  
Richard Rollison, Innovation, Industries and  
Investment  
Mary McAllan, Directorate For Economic  
Development  
[REDACTED]  
Liz Lloyd, Special Adviser  
John McFarlane, Special Adviser  
Kate Higgins, Special Adviser

**Annex A**

## **FERGUSON MARINE ENGINEERING LIMITED - SHIPBUILDING CONTRACT TWO 100 METRES DUAL FUEL FERRIES**

### **Quality of Build**

1. It should be noted that the quality of the workmanship that CMAL has witnessed at FMEL to date is very good. This is seen as a significant positive indication, particularly for the subsequent reliability and longevity of the vessels.
2. The Minister for Transport and the Islands visited CMAL's offices on 12 December 2016 to hear more of CMAL's work in relation to vessels, piers and harbours. Following a briefing on the construction of the two vessels by CMAL senior personnel, highlighting a number of the messages in this submission, the Minister, TS officials and CMAL senior personnel, visited and toured FMEL's yard. We understand the Minister was reassured by FMEL's commitment to the two vessels and was impressed by the parallel work on the re-construction and modernisation of the shipyard.

### **Payments**

3. Within CMAL's contract with FMEL, there are various milestone payments that are required to be made at certain stages of the construction. [REDACTED].
  4. [REDACTED].
  5. [REDACTED].
  6. [REDACTED].
- [REDACTED]
7. [REDACTED].
    - [REDACTED].
    - [REDACTED].
    - [REDACTED].
    - [REDACTED].

- [REDACTED].

- [REDACTED].

- [REDACTED].

8. [REDACTED]:-

- [REDACTED]

- [REDACTED].

9. [REDACTED].

[REDACTED]

10. [REDACTED]:-

- [REDACTED]

- [REDACTED].

[REDACTED]

11. [REDACTED].

12. [REDACTED].

13. [REDACTED].

14. [REDACTED]:-

- [REDACTED]

- [REDACTED].

15. [REDACTED].

### **Future Progress**

16. The CMAL CEO has had two recent meetings with the CBC lead Director to discuss how CMAL can work even more closely with the FMEL Team to achieve a genuine programme of works and milestones that all sides can fully believe in. [REDACTED].

17. CMAL will continue to have further meetings with FMEL, to look closely at the planning and address any issues that are expected to arise. CMAL confirm that they will continue to work closely with FMEL in all respects. [REDACTED].

18. In the meantime, CMAL stand ready to provide any further immediate information to Transport Scotland and Scottish Ministers. Transport Scotland regularly discuss this important issue at CMAL Board meetings and in the monthly TS / CMAL Liaison Meetings. The most recent of these was on Thursday 16 February.

19. CalMac Ferries senior officials and Board members are also being kept fully informed by CMAL given the implications for CalMac in terms of vessel mobilisation, crew training, vessel deployment and service timetables for the Clyde and Hebrides ferry services.

20. Transport Scotland officials are also monitoring progress with a particular emphasis on financial planning and profiling and the interactions with associated planned pier and harbour infrastructure works for the Arran service and on the Uig Triangle. Transport Scotland officials will liaise closely with CMAL on this matter.

21. [REDACTED].

[REDACTED]

22. [REDACTED].

23. [REDACTED].

24. [REDACTED].

25. [REDACTED]:-

- [REDACTED]
- [REDACTED]
- [REDACTED].

[REDACTED].

26. [REDACTED].

27. [REDACTED]:-

- [REDACTED]
- [REDACTED].

28. [REDACTED].

29. [REDACTED].

30. [REDACTED].

31. [REDACTED].

32. [REDACTED].

[REDACTED]

33. [REDACTED].

34. [REDACTED].

**Document 2: Briefing note for meeting between Jim McColl, Cab Sec Economy and Transport Minister**

**MINISTERIAL ENGAGEMENT BRIEFING: KEITH BROWN , DEREK MACKAY AND HUMZA YOUSAF**

<i>Engagement Title</i>	Meeting with Jim McColl of Clyde Blowers Capital, owner of Ferguson Marine Engineering Ltd.
<i>Timing</i>	Normal
<i>Organisation/Venue and full address including postcode</i>	Room T04.07 Scottish Parliament
<i>Date and Time of Engagement</i>	Date(s): Thursday 2 March 2017 Time(s): 10:15am – 11:00am
<i>Background/Purpose</i>	Please see outline Agenda and Key issues at <b>Annex A</b> .
<i>Relevance to Core Script</i>	Investment in Transport Infrastructure to support sustainable economic growth.
<i>Greeting Party and specific meeting point on arrival (if event is at a non SG Building)</i>	N/A
<i>Specific entrance for Ministerial Car/parking arrangements</i>	None
<i>Venue contact Number</i>	Switchboard on 0800 092 7500 or 0131 348 5000
<i>Special Dress Requirements</i>	Suit
<i>Event Programme</i>	<b>Annex A</b> Key issues and attendees.
<i>Key Points</i>	<b>Annex B</b>
<i>Guest List or Meeting Attendees</i>	Included in <b>Annex A</b>
<i>Background</i>	<b>Annex C</b> Submission relating to the Shipbuilding contract – 2x100m dual fuel Ferries dated 22 February 2017  [REDACTED]  [REDACTED].
<i>Supplementary Info:</i>	N/A

<i>Directions including map(s)</i>	N/A
<i>Media Handling</i>	Non Media Event
<i>Official Support</i>	Officials <b>Names:</b> [REDACTED] [REDACTED]

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Cabinet Secretary for Rural Economy and Connectivity			X		
DG Economy DG Finance Roy Brannen, CE TS PS Transport Scotland Gordon Wales, Director of Financial Management TS Directors [REDACTED] Richard Rollison, Innovation, Industries and Investment Mary McAllan, Directorate For Economic Development [REDACTED] Liz Lloyd, Special Adviser John McFarlane, Special Adviser Kate Higgins, Special Adviser					

## ANNEX A

### Attendees

Keith Brown  
Derek Mackay  
Humza Yousaf  
Jim McColl  
[REDACTED]

Mr McColl has suggested the following agenda:-

1. Contract 801/802
  - Contract Status
  - Funding profile
2. [REDACTED]
3. [REDACTED].

4. [REDACTED]

### **Key issues**

1. [REDACTED].

2. Slippage in the construction of the 2 ferries by FMEL and CMAL's view that delivery dates are likely to be missed.

### **Background to meeting**

The meeting has been set up at Jim McColl's request. [REDACTED].

[REDACTED]

[REDACTED].

## **ANNEX B**

### **Key points**

1. [REDACTED]

[REDACTED].

[REDACTED]:

- [REDACTED]

- [REDACTED]

[REDACTED].

### **2. Progress by FMEL with the construction of 2 new ferries**

- Progress is behind schedule in the construction of two new ferries (see milestones below).
- Mr McColl and senior CBC and FMEL executives have been briefed by CMAL on their concerns around slippage and the implications for delivery dates. [REDACTED].
- CMAL's forecasts given the rate of progress to date are for:-

[REDACTED]

[REDACTED]

- CMAL are liaising with FMEL regarding the progress of the construction of the vessels and continue to be supportive from both a technical and financial perspective.
- [REDACTED].



[REDACTED]

[REDACTED]:

[REDACTED].

[REDACTED].

[REDACTED]:

[REDACTED].

**3.** [REDACTED]

[REDACTED].

## **ANNEX C**

[See document 1: “Submission from Graham Laidlaw to Cab Sec EJFW, Cab Sec Finance and Transport Minister”]

## **ANNEX D**

[REDACTED]

[REDACTED]:

- [REDACTED].
- [REDACTED].

[REDACTED]

1. [REDACTED].

2. [REDACTED].

3. [REDACTED].

4. [REDACTED].

[REDACTED]

5. [REDACTED].

[REDACTED]

6. [REDACTED].

7. [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1. [REDACTED].

2. [REDACTED].

3. [REDACTED]:

- [REDACTED].
- [REDACTED].

[REDACTED]

4. [REDACTED].

5. [REDACTED].

[REDACTED]

6. [REDACTED]:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

7. [REDACTED].

8. [REDACTED].

9. [REDACTED].

10. [REDACTED].

11. [REDACTED]:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED].

12. [REDACTED].

[REDACTED]

13. [REDACTED]:

i. [REDACTED].

ii. [REDACTED].

[REDACTED]

[REDACTED]

iii. [REDACTED].

[REDACTED]

14. [REDACTED].

15. [REDACTED].

16. [REDACTED].

17. [REDACTED].

18. [REDACTED].

19. [REDACTED]:

- [REDACTED]
- [REDACTED]
- [REDACTED].

20. [REDACTED]:

- [REDACTED]
- [REDACTED].

[REDACTED]

21. [REDACTED].

22. [REDACTED].

[REDACTED]

23. [REDACTED].

24. [REDACTED].

25. [REDACTED].

[REDACTED]

### **Document 3: Note of meeting between Jim McColl, Cab Sec Economy and Transport Minister**

**From:** [REDACTED]

**Sent:** 02 March 2017 13:18

**To:** [REDACTED] Minister for Transport and the Islands Cabinet Secretary for Economy, Jobs and Fair Work Cabinet Secretary for Finance, Economy and Fair Work

**Cc:** Cabinet Secretary for the Rural Economy DG Economy DG Scottish Exchequer Mailbox Brannen R (Roy) Transport Scotland Secretariat Director of Financial Management Transport Scotland Directors [REDACTED] Rollison R (Richard) McAllan M (Mary) [REDACTED] Lloyd E (Elizabeth) McFarlane J (John) Higgins K (Kate)

**Subject:** RE: Jim McColl meeting with Keith Brown and Humza Yousaf 2 March 2018 final

PS/Ministers (an action for PS/Mr Yousaf below)

This is to record the main points of this morning's meeting insofar as they related to ferries.

#### **Contract 801/802 : contract status**

- Mr Yousaf asked about [REDACTED].
- It was noted that the build quality so far was good, and that CMAL and FMEL had established a good working relationship. Noting the novel nature of the build, [REDACTED].
- [REDACTED].
- **Action:** Mr Yousaf to meet with CMAL in a fortnight for an update on progress. PS/Mr Yousaf to take forward please.

#### **Contract 801/802: funding profile**

- [REDACTED].
- [REDACTED].

[REDACTED]

- [REDACTED].

John

## **Document 4: FMEL Cash Funding Situation**

[REDACTED]

## **Document 5: E-mail from [REDACTED], TS to Ministers**

**From:** [REDACTED]

**Sent:** 24 March 2017 17:18

**To:** Minister for Transport and the Islands Cabinet Secretary for Economy, Jobs and Fair Work  
Cabinet Secretary for Finance, Economy and Fair Work

**Cc:** Cabinet Secretary for the Rural Economy DG Economy DG Scottish Exchequer Mailbox Brannen R (Roy) Transport Scotland Secretariat Director of Financial Management Transport Scotland Directors [REDACTED] (SPD) [REDACTED] Rollison R (Richard) McAllan M (Mary) Press Transport Scotland [REDACTED] Lloyd E (Elizabeth) McFarlane J (John) Higgins K (Kate) [REDACTED]

**Subject:** Jim McColl meeting with Keith Brown, Derek Mackay and Humza Yousaf - follow-up note - 24 March 2017

PS/Ministers

At the meeting on 2 March with Jim McColl, Mr Mackay requested advice from TS Ferries, with input from SG/TS Finance and CMAL, on the 2 proposals put forward by Mr McColl [REDACTED]:

Please see attached update and advice note, which has been cleared with Finance and SGLD colleagues.

In summary, our note suggests the following:

- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED].

There are financial implications and legal risks with these options; these are summarised in the note.

In terms of next steps, if Ministers agree to CMAL taking this forward then they may wish to inform Mr McColl of this directly themselves either by phone or in writing.

[REDACTED]

Transport Scotland Ferries

Ext [REDACTED]

## **Document 6: FMEL Cash Funding document**

**(See Document 4)**

**Document 7: Letter from Jim McColl to Erik Ostergaard**

[REDACTED]

**Document 8: Update and Advice Note from TS to Ministers**

**FERGUSON MARINE – CASH FUNDING SITUATION**

Background

Ministers met Jim McColl on 2 March 2017. [REDACTED]:

1) [REDACTED];

2) [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED]:

- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED].

[REDACTED].

1) [REDACTED]

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

2) [REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED]:

1) [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED];

2) [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

### Conclusion

In conclusion, we would:

- [REDACTED];
- [REDACTED]
- continue work on wider support for FMEL
- come back with options for future shipbuilding procurements

Transport Scotland  
24 March 2017

### **Document 9: E-mail from [REDACTED] to Ministers**

**From:** [REDACTED]

**Sent:** 24 March 2017 17:26

**To:** Minister for Transport and the Islands; Cabinet Secretary for Economy, Jobs and Fair Work; Cabinet Secretary for Finance and the Constitution

**Cc:** Cabinet Secretary for the Rural Economy and Connectivity; DG Economy; DG Finance Mailbox; Brannen R (Roy); PS/Transport Scotland; Director of Financial Management; Transport Scotland Directors; [REDACTED]Rollison R (Richard); McAllan M (Mary); Press Transport Scotland; [REDACTED]Lloyd E (Elizabeth); McFarlane J (John); Higgins K (Kate); [REDACTED]

**Subject:** Jim McColl meeting with Keith Brown, Derek Mackay and Humza Yousaf - follow-up note - 24 March 2017

[REDACTED]

Following on from [REDACTED] advice below regarding the Ferguson Marine Engineering Ltd (FMEL) Cash Funding Situation, I forward an e-mail update from Kevin Hobbs, CEO of CMAL in relation to progress on the delivery timescale for the two 100m vessels currently being constructed at FMEL.

This update from Kevin follows Mr Yousaf's meeting with Kevin on this matter on Tuesday 14 March. Since the Minister's meeting with Kevin, and at Mr Yousaf's



insistence, there have been a series of meetings between CMAL and FMEL, including a meeting this morning that involved Jim McColl.

[REDACTED].

[REDACTED].

[REDACTED];

[REDACTED].

[REDACTED].

[REDACTED].

I trust the Minister is assured by this change of approach from FMEL and the positive feedback from CMAL.

We will of course continue to manage and monitor the situation and keep Ministers appraised of progress.

Thanks

[REDACTED]

### **Document 10: Update e-mail from Kevin Hobbs**

[REDACTED]

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED]:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

**Document 11: E-mail from Kevin Hobbs, CMAL to Tom Cousins, FMEL**

[REDACTED]

[REDACTED],

[REDACTED].

[REDACTED].

[REDACTED]?

[REDACTED].

[REDACTED].

**Document 12: E-mail from Tom Cousins, FMEL to Kevin Hobbs, CMAL**

[REDACTED]

[REDACTED].

[REDACTED]:

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED]:

1. [REDACTED].
2. [REDACTED].
3. [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

**Document 13: Submission from Roy Brannen to Cab Sec Finance on April 29 2017**

**Cabinet Secretary for Finance and the Constitution**

From Roy Brannen  
Chief Executive  
Transport Scotland

**FERGUSON MARINE ENGINEERING LTD (FMEL)  
CASH FUNDING SITUATION - OPTIONS**

**Introduction**

1. Further to the advice previously provided on 13 April 2017 and 24 March 2017 from [REDACTED] we undertook to seek further advice from CMAL regarding [REDACTED].

2. Further advice is set out below. This has been cleared by DG Economy, DG Finance, SGLD and with input from colleagues across Scottish Government and Transport Scotland.

[REDACTED]

3. [REDACTED].

4. [REDACTED].

5. [REDACTED]

**Technical Advice**

6. [REDACTED].

7. Clyde Blowers appointed a Project Management Team in order to look at every aspect of the new build project to date and also put into place credible plans to achieve delivery dates that were in line with the contracts. [REDACTED]. In essence the performance and output of the shipyard is monitored daily and the FMEL and CMAL Team are able to see the progress against the plan.

8. [REDACTED].

9. There is now an identifiable plan for each vessel [REDACTED].

10. [REDACTED].

**Financial Advice**

11. [REDACTED].

12. [REDACTED].

13. Taking into account the advice received, the challenge therefore is to explore what support would be appropriate to FMEL [REDACTED].

### **Accountable Officer Consideration**

14. In providing advice as Accountable Officer I am required to consider the propriety, regularity and value for money of any proposed course of action. In order to form a view in this regard my advice reflects advice and input from Transport Scotland, SGLD and SG Finance.

15. My advice has considered the propriety and regularity issues with regard to [REDACTED].

16. [REDACTED].

17. [REDACTED].

18. [REDACTED].

19. I would highlight however that in recommending such a course of action, [REDACTED].

### **Recommendations**

20. Consequently, and drawing on the advice from CMAL and SGLD, it is suggested that the viable options available or the recommended course of action for Ministers are

- [REDACTED]
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].

21. [REDACTED].

### **Next Steps**

22. Given the urgency attached to this by Mr McColl I would welcome your early views.

**ROY BRANNEN**  
CHIEF EXECUTIVE  
TRANSPORT SCOTLAND

Ext 27114

Copy to

First Minister  
Deputy First Minister and Cabinet Secretary for Education and Skills  
Cabinet Secretary for Economy, Jobs and Fair Work  
Cabinet Secretary for the Rural Economy and Connectivity  
Minister for Transport and the Islands

Permanent Secretary  
DG Economy  
DG Finance  
[REDACTED]  
PS/Transport Scotland  
Director of Financial Management  
Transport Scotland Directors  
[REDACTED]  
Rollison R (Richard)  
McAllan M (Mary)  
[REDACTED]  
Lloyd E (Elizabeth)  
McFarlane J (John)  
Higgins K (Kate)  
Maxwell S (Stewart) (Special Adviser)  
McAllister C (Colin)

#### **Document 14: E-mail from DG Economy to Cab Sec Finance**

**From:** DG Economy  
**Sent:** Wednesday, 10 May 2017 18:35  
**To:** DG Economy Cabinet Secretary for Finance and the Constitution  
**Cc:** McAllan M (Mary) Lord Advocate Permanent Secretary DG Finance Mailbox Brannen R (Roy)  
PS/Transport Scotland Director of Financial Management Lloyd E (Elizabeth) McAllister C (Colin)  
[REDACTED]  
**Subject:** RE: URGENT - Confidential: Submission on FMEL

[REDACTED] / Cabinet Secretary for Finance and the Constitution

#### **FMEL Update**

Further to Mary McAllan's submission of 5 May, I can provide a further update on our work and engagement on FMEL's [REDACTED].

I spoke with Jim McColl yesterday evening (4 May). It was a positive exchange and Jim is keen to understand more about a number of potential options for support.

[REDACTED]:

1. [REDACTED]

2. [REDACTED]
3. [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

We will continue to keep in close contact with Mr McColl and provide you with a further update no later than Monday 15 May.

Liz

## **Document 15: Submission from Roy Brannen to Cab Sec Finance on May 11 2017**

From: Roy Brannen  
Chief Executive  
Transport Scotland  
11 May 2017

### **Cabinet Secretary for Finance and the Constitution**

#### **FERGUSON MARINE ENGINEERING LTD (FMEL) CASH FUNDING SITUATION - OPTIONS**

##### **Purpose**

1. [REDACTED].
2. This advice has been cleared by DG Economy, DG Finance, SGLD and with input from colleagues across Scottish Government and Transport Scotland.

**Priority**  
Urgent

##### **Background**

3. You accepted the advice in my submission of 29 April (attached at Annex A). [REDACTED]. Separate advice will be provided on this.

##### **Update**

4. As reported in Mary McAllan's note of 5 May, CMAL/TS and FMEL met on 4 May to discuss [REDACTED]. The key elements are as follows:

- [REDACTED].
- [REDACTED].

- [REDACTED].
- [REDACTED].

[REDACTED]

5. [REDACTED].
6. [REDACTED].
7. [REDACTED]:
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].

In addition, CMAL have sight of more detailed breakdowns of a large number of smaller items, and will continue to closely monitor this with FMEL. [REDACTED].

8. [REDACTED].
9. [REDACTED].

[REDACTED]

10. [REDACTED].

[REDACTED]

11. [REDACTED].

[REDACTED]

12. [REDACTED].

[REDACTED]

13. [REDACTED].

14. [REDACTED].

15. From a value for money perspective, the overall payments due under the contract remain unchanged and I am satisfied that such an arrangement, [REDACTED] represent value for money for the taxpayer.

16. [REDACTED].

[REDACTED]

17. [REDACTED]:

- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].

Roy Brannen  
Chief Executive  
Transport Scotland  
11 May 2017

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
First Minister Deputy First Minister and Cabinet Secretary for Education and Skills Cabinet Secretary for Economy, Jobs and Fair Work Cabinet Secretary for the Rural Economy and Connectivity Lord Advocate Minister for Transport and the Islands					<b>X</b>

Permanent Secretary  
DG Economy  
DG Finance  
[REDACTED]  
Director of Financial Management  
Transport Scotland Directors  
[REDACTED]  
Rollison R (Richard)  
McAllan M (Mary)  
[REDACTED]  
Lloyd E (Elizabeth)  
McFarlane J (John)  
Higgins K (Kate)  
Maxwell S (Stewart) (Special Adviser)  
McAllister C (Colin)



## Annex A

(See Document 7)

## Annex B

[REDACTED]

### **Document 16: E-mail from DG Economy to Ministers and officials**

**From:** [REDACTED] **On Behalf Of** DG Economy

**Sent:** 30 May 2017 16:49

**To:** DG Economy Somers J (John) First Minister Deputy First Minister and Cabinet Secretary for Education and Skills Cabinet Secretary for Finance and the Constitution Cabinet Secretary for Economy, Jobs and Fair Work Cabinet Secretary for the Rural Economy and Connectivity Minister for Transport and the Islands

**Cc:** Maxwell S (Stewart) (Special Adviser) McAllister C (Colin) Lloyd E (Elizabeth) [REDACTED] Director of Financial Management PS/Transport Scotland Nicholls J (John) (TRANS) [REDACTED] [REDACTED] McAllan M (Mary) [REDACTED] Brannen R (Roy)

**Subject:** RE: IMMEDIATE: meeting with Jim McColl

John

As indicated in Thursday's update, Liz spoke to Jim McColl this afternoon as part of a regular series of catch ups on FMEL and ahead of FM's meeting with him tomorrow.

Key points as follows:

- The agreed process is on track – SE meeting with FMEL team today (Tuesday) to secure financial information which SE will use to produce analysis of FMEL's new projected cash flows [REDACTED] and health of the company generally. SE should be able to produce an initial analysis by the end of this week. We will use this to consider and inform next steps.
- [REDACTED].
- [REDACTED].

[REDACTED]

### **Document 17: E-mail from DG Economy to [Redacted]**

[REDACTED]

**Cc:** Maxwell S (Stewart) (Special Adviser) McAllister C (Colin) Lloyd E (Elizabeth) Director of Financial Management [REDACTED] Permanent Secretary Cameron DA (Donald) McAllan M (Mary)

[REDACTED] Brannen R (Roy) DG Economy [REDACTED] First Minister Deputy First Minister and Cabinet Secretary for Education and Skills Cabinet Secretary for Finance and the Constitution Cabinet Secretary for Economy, Jobs and Fair Work Cabinet Secretary for the Rural Economy and Connectivity

Minister for Transport and the Islands Lord Advocate

**Subject:** RE: IMMEDIATE: meeting with Jim MColl

**Importance:** High

[REDACTED]

Following FM's meeting this morning she has asked for further information on the following:

- [REDACTED].
- [REDACTED].

I think this information largely exists already but very helpful if you could pull it together, [REDACTED].

Can you please get a draft for Liz to consider by 4pm today?

Thanks

[REDACTED]

### **Document 18: E-mail from DG Economy to First Minister**

**From:** [REDACTED] **On Behalf Of** DG Economy

**Sent:** 02 June 2017 15:40

**To:** DG Economy First Minister

**Cc:** Maxwell S (Stewart) (Special Adviser) McAllister C (Colin) Lloyd E (Elizabeth) Director of Financial Management PS/Transport Scotland [REDACTED] Permanent Secretary [REDACTED] McAllan M (Mary) [REDACTED] Brannen R (Roy) [REDACTED] Deputy First Minister and Cabinet Secretary for Education and Skills [REDACTED] Cabinet Secretary for Finance and the Constitution Cabinet Secretary for Economy, Jobs and Fair Work Cabinet Secretary for the Rural Economy and Connectivity Minister for Transport and the Islands Lord Advocate [REDACTED]

**Subject:** RE: IMMEDIATE: meeting with Jim MColl

PS/FM

Following the meeting on 31 May with Jim McColl, we understand FM asked for further information. I have set this out here on behalf of DG Economy, it is the result of various input and consideration by officials in Transport Scotland, Finance and SGLD.

1. [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]:

1. [REDACTED]
2. [REDACTED]
3. [REDACTED]
4. [REDACTED]
5. [REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

**2.** [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]:

[REDACTED].

[REDACTED].

[REDACTED].

-ends-

[REDACTED]

**Document 19: E-mail from DG Economy to Ministers**

**From:** Ditchburn L (Liz) **On Behalf Of** DG Economy

**Sent:** 16 June 2017 15:33

**To:** First Minister DG Economy Cabinet Secretary for Finance and the Constitution Cabinet Secretary for Economy, Jobs and Fair Work

**Cc:** Maxwell S (Stewart) (Special Adviser) McAllister C (Colin) Lloyd E (Elizabeth) Director of Financial Management PS/Transport Scotland [REDACTED]Permanent Secretary Cameron DA (Donald) McAllan M (Mary) [REDACTED]Brannen R (Roy) [REDACTED] Deputy First Minister and Cabinet Secretary for

Education and Skills [REDACTED] Cabinet Secretary for the Rural Economy and Connectivity Minister for Transport and the Islands Lord Advocate [REDACTED]

**Subject:** RE: IMMEDIATE: meeting with Jim McColl

First Minister, Cab Sec Finance and Constitution, Cab Sec EJFW

Following Mr McColl's continuing concerns expressed to me about the nature of the contract with CMAL, I met with Mr McColl together with Keith Mitchell (of CBC) and Erik Ostergaard, Chair of CMAL and Kevin Hobbs, CEO of CMAL on the 7<sup>th</sup> June in Glasgow. [REDACTED].

The meeting was frank and open.

[REDACTED].

[REDACTED].

[REDACTED]. I confirmed that we shared a strategic objective in seeing a successful shipbuilding activity in Scotland, including for the domestic market, and that we were keen to continue to discuss options, both in the short term with FMEL, and the more strategic, market-wide issues [REDACTED].

We agreed three actions:

1. [REDACTED].
2. FMEL and SG/SE should work to pursue alternative support mechanisms outside the contract. This work had started but had been paused as Mr McColl was keen for this meeting to go ahead first. Mr McColl agreed that this work should continue and that he would ensure that the necessary financial information was made available to SE. I stressed that SE was operating in this context for themselves but also for SG, and that we would look at support options from both SE and / or SG as appropriate.
3. For the medium term, SG would pursue the discussion with interested parties, including FMEL and with sector expertise from CMAL, as to whether there were government actions that could be undertaken, [REDACTED].

Liz

**Liz Ditchburn**  
Director General Economy  
Scottish Government

**Document 20: E-mail from DG Economy to SG Officials regarding SE paper on FMEL financing**

**From:** [REDACTED] **On Behalf Of** DG Economy

**Sent:** 14 July 2017 11:50

**To:** Chief Financial Officer DG Finance Mailbox [REDACTED] McAllan M (Mary) Rollison R (Richard)

[REDACTED] Brannen R (Roy) PS/Transport Scotland [REDACTED]

**Cc:** DG Economy [REDACTED]

**Subject:** FW: Fergusons paper

[REDACTED].

Please review this document and give thought to options, including SG options that would not necessarily be part of the SE core offer. I would like us to meet to discuss this next week, but I know that availability may be a challenge. We may work to meet first as SG and then with SE (or vice versa). To note that Cab Sec is meeting Jim McColl on Wednesday next week. I told Jim on Wednesday that I had just received the report but that we had not had a chance to review it yet. Once we are clear on what if any options are feasible, we will want to meet Jim again. My office / I should keep him updated on timeframes for that meeting.

Liz Ditchburn  
DG Economy

**Document 21: SE Report on FMEL financing**

[REDACTED]

[REDACTED]  
[REDACTED].

[REDACTED]  
[REDACTED].

[REDACTED]  
[REDACTED].

- [REDACTED]  
[REDACTED].

- [REDACTED].  
[REDACTED].

- [REDACTED].  
[REDACTED].

[REDACTED].

- [REDACTED]; [REDACTED].

- [REDACTED]; [REDACTED].

- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].

[REDACTED].  
[REDACTED].

- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].

[REDACTED].  
[REDACTED].

- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].
- [REDACTED]: [REDACTED].

[REDACTED].  
[REDACTED].

[REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]:

[REDACTED]

[REDACTED].

[REDACTED]:  
[REDACTED]

[REDACTED]

.

[REDACTED].  
[REDACTED].

[REDACTED].  
[REDACTED].

[REDACTED].  
[REDACTED]:

[REDACTED]

[REDACTED].

## **Document 22: Briefing for Mr MacKay meeting Jim McColl**

### **MINISTERIAL ENGAGEMENT BRIEFING: DEREK MACKAY**

<i>Engagement Title</i>	Meeting with Jim McColl of Clyde Blowers Capital, owner of Ferguson Marine Engineering Ltd.
<i>Timing</i>	Normal
<i>Organisation/Venue and full address including postcode</i>	7 <sup>th</sup> floor, AQ
<i>Date and Time of Engagement</i>	Date(s): Wednesday 17 July 2017 Time(s): 12.30 – 13.15
<i>Background/Purpose</i>	Please see outline Agenda and Key issues at <b>Annex A</b> .
<i>Relevance to Core Script</i>	Investment in Transport Infrastructure to support sustainable economic growth.
<i>Greeting Party and specific meeting point on arrival (if event is at a non SG Building)</i>	N/A
<i>Specific entrance for Ministerial Car/parking arrangements</i>	None
<i>Venue contact Number</i>	
<i>Special Dress Requirements</i>	No
<i>Event Programme</i>	<b>Annex A</b> Agenda and attendees.
<i>Key Points</i>	Included in <b>Annex A</b>

<i>Guest List or Meeting Attendees</i>	Included in <b>Annex A</b>
<i>Background</i>	<b>Annex B</b> – FMEL – current issues  <b>Annex C</b> – Note of meeting 2 March 2017  <b>Annex D</b> – Note of meeting 7 June 2017  [REDACTED]  [REDACTED]
<i>Supplementary Info:</i>	N/A
<i>Directions including map(s)</i>	N/A
<i>Media Handling</i>	Non Media Event
<i>Official Support</i>	Officials  <b>Names:</b>  Richard Rollison, Deputy Director Innovation, Industries and Investment Division [REDACTED]  [REDACTED]

<b>Copy List:</b>	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Cabinet Secretary for Rural Economy and Connectivity Cabinet Secretary for Economy, Jobs and Fair Work Minister for Transport & Islands			X X X		
DG Economy DG Finance Roy Brannen, CE TS PS Transport Scotland Gordon Wales, Chief Financial Officer TS Directors [REDACTED] Richard Rollison, Innovation, Industries and Investment Mary McAllan, Directorate For Economic Development [REDACTED] Liz Lloyd, Special Adviser John McFarlane, Special Adviser Kate Higgins, Special Adviser Stewart Maxwell, Special Adviser					



## Attendees

Derek Mackay

Jim McColl

Richard Rollison, Deputy Director, Innovation, Industries and Investment Division

[REDACTED]

## Agenda

Mr McColl has suggested the following agenda:-

1. Ferguson Marine Engineering Ltd
2. [REDACTED]

## Key issues

1. [REDACTED].
2. [REDACTED].

## Background to meeting

The meeting has been set up at Jim McColl's request.

[REDACTED]. However recent engagement indicates that neither the company nor the shipbuilding contracts with CMAL are at currently at risk.

[REDACTED].

Engagement with Mr McColl has been ongoing since he met Mr Mackay, Mr Brown and Mr Yousaf on 2 March 2017. A note of that meeting is attached as **Annex C**. Subsequent to that meeting:

- [REDACTED].
- [REDACTED].
- Liz Ditchburn (DG Economy), [REDACTED] and Kevin Hobbs (CMAL) met Jim McColl and Keith Mitchell (Clyde Blowers Capital) on 7 June. See note of meeting at **Annex D**. Following detailed discussions, [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- Most recently Mr McColl met Liz Ditchburn on 12 July with Roy Brannen and [REDACTED] in attendance. Mr McColl noted that FMEL were going to delay the launch of the first vessel from August to September as this would enable a more efficient use of the yard's resources. This would not affect the final delivery date.

- [REDACTED].
- Notwithstanding the challenges, the quality of work by FMEL remains high and the investment made at the shipyard is now very visible in terms of improved and expanded buildings, plant and machinery.
- SG remains committed to supporting the development of a successful shipbuilding sector in Scotland.

[REDACTED]

[REDACTED].

## ANNEX B

### Ferguson Marine Engineering Ltd (FMEL) – Current Issues

#### Background

In November 2015, CMAL placed orders at FMEL for the construction of two 100m Dual Fuel Ferries (LNG and Marine Gas Oil), currently referred to as Vessels 801 and 802.

The delivery dates of the vessels at contract signing were:

- Vessel 801 – 25 May 2018 – for subsequent deployment on the Arran service to Brodick.
- Vessel 802 – 26 July 2018 – for subsequent deployment on the Uig Triangle service, serving Tarbert, Harris and Lochmaddy, North Uist service.

[REDACTED].

[REDACTED]:-

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED].

- [REDACTED].

- [REDACTED].

- [REDACTED].

[REDACTED]:

- [REDACTED]
- [REDACTED].

[REDACTED]:

- [REDACTED]
- [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED].

[REDACTED]

[REDACTED]:

- [REDACTED]
- [REDACTED].
- [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]:

1. [REDACTED].

2. [REDACTED].

3. [REDACTED].

[REDACTED]:

[REDACTED].

**1.** [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]:

1. [REDACTED]

2. [REDACTED]

3. [REDACTED]

4. [REDACTED]

5. [REDACTED]

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

**2.** [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]:

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED].

- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED].

[REDACTED].

[REDACTED]:

- [REDACTED]
- [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]

[REDACTED].

[REDACTED]

[REDACTED].

**(See Document 3)**

**(See document 14)**

[REDACTED]

[REDACTED]

[REDACTED]

- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].

[REDACTED]

- [REDACTED].
- [REDACTED].
- [REDACTED].

- [REDACTED].
  - [REDACTED].

- [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].

- [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].
  - [REDACTED].

- [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1. [REDACTED].

2. [REDACTED].

3. [REDACTED]:

- [REDACTED].

- [REDACTED].

[REDACTED]

4. [REDACTED].

5. [REDACTED].

6. [REDACTED].

7. [REDACTED].

[REDACTED]

8. [REDACTED].

9. [REDACTED].

10. [REDACTED]:

- [REDACTED].

- [REDACTED].

- [REDACTED].

- [REDACTED].

11. [REDACTED].

[REDACTED]

12. [REDACTED]:

iv. [REDACTED].

v. [REDACTED].

[REDACTED].

vi. [REDACTED].

[REDACTED]

### **Document 23: E-mail from DG Economy to SG Officials**

**From:** Ditchburn L (Liz)  
**Sent:** Tuesday, 18 July 2017 18:11  
**To:** Rollison R (Richard) [REDACTED] Gillespie G (Gary) Anson S (Sam) [REDACTED]  
**Cc:** DG Economy Brannen R (Roy) [REDACTED] Chief Financial Officer DG Finance Mailbox McAllan M (Mary)  
**Subject:** Note of meeting with Jm McColl - Commercially sensitive - protect

All

I met Jim McColl last week on Wednesday with Roy Brannen and [REDACTED]. The substantive business of the meeting was on the contract with CMAL, however, in that conversation and following the main meeting, there were a number of issues that are of broader interest. This note captures those other issues, [REDACTED] are actioning the other aspects of the discussion wrt the contract.

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED] please.

Liz

**Liz Ditchburn**  
Director General Economy  
Scottish Government

### **Document 24: Update from Kevin Hobbs' on CMAL's position**

**From:** [REDACTED]  
**Sent:** 25 July 2017 19:01  
**To:** DG Economy  
**Cc:** Brannen R (Roy) Transport Scotland Secretariat [REDACTED]  
**Subject:** FMEL

Liz

[REDACTED] passed on your message that Jim McColl had phoned you to express his continuing concern [REDACTED]. Kevin Hobbs had been trying to contact me this afternoon on the same subject, and I have now discussed this with him- he had been approached separately today by FMEL senior management on the same subject.

CMAL's position is as follows:



- [REDACTED].

- [REDACTED].

- [REDACTED].

- [REDACTED].

- [REDACTED].

- [REDACTED].

Kevin would be happy to discuss this with you on the phone or in person if that would be helpful..

Going forward, I think we need to encourage FMEL [REDACTED]. TS would be happy to facilitate that if necessary.

[REDACTED]

### **Document 25: Note of call between Jim McColl and Roy Brannen**

**From:** Brannen R (Roy)  
**Sent:** 27 July 2017 16:55  
**To:** DG Economy PS/Transport Scotland  
**Subject:** RE: Call with Jim McColl  
**Importance:** High

Quick read out from call.

JMcC requested a call to discuss ferry contract. [REDACTED] called him today at lunchtime. Main points:

- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- [REDACTED].
- JMcC understood position but would be seeking a further call with Liz.

[REDACTED] confirmed with [REDACTED] following the call that CMAL were clear on the professional approach expected [REDACTED]. He confirmed they were but would be speaking with Erik and Kevin tomorrow to reiterate.

### **Document 26: E-mail from Jim McColl to Cab Sec Finance and DG Economy**

**From:** James A. McColl  
**Sent:** 28 July 2017 09:47  
**To:** Cabinet Secretary for Finance and the Constitution DG Economy

**Subject:** FMEL / CMAL  
**Importance:** High

Dear Derek & Liz,

[REDACTED].

[REDACTED].

[REDACTED]:

- [REDACTED].
- [REDACTED]:
  - (i) [REDACTED],
  - (ii) [REDACTED]
  - (iii) [REDACTED]

[REDACTED].

- [REDACTED].
- [REDACTED].
- [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED].

[REDACTED]:

- (i) [REDACTED].
- (ii) [REDACTED].
- (iii) [REDACTED].

[REDACTED].

It is extremely important, and in the interests of all parties, that these matters are urgently resolved. I would be grateful therefore if we can have a discussion later today once you have had a chance to consider the forgoing, so that we can finally agree an acceptable solution.

Jim

**Jim McColl**  
Founder, Chairman & CEO

## **Document 27: E-mail from DG Economy to Cab Sec Finance and Officials**

**From:** Ditchburn L (Liz) **On Behalf Of** DG Economy

**Sent:** 28 July 2017 12:54

**To:** Cabinet Secretary for Finance and the Constitution DG Economy Chief Financial Officer

**Cc:** DG Finance Mailbox Chief Financial Officer [REDACTED]Lloyd E (Elizabeth) McFarlane J (John)

McCaig C (Callum) Minister for Transport and the Islands Maxwell S (Stewart) (Special Adviser)

McAllan M (Mary) PS/Transport Scotland Cabinet Secretary for Economy, Jobs and Fair Work

Cabinet Secretary for the Rural Economy and Connectivity [REDACTED]Rollison R (Richard)

[REDACTED]Brannen R (Roy) [REDACTED]

**Subject:** RE: FMEL / CMAL

All

Readout from my call with Jim last night:

[REDACTED].

He said he had two proposals to make to us:

1. [REDACTED].

2. [REDACTED].

[REDACTED].

[REDACTED].

[REDACTED] He indicated that he would, but we should follow up in writing to nail this down – including any role or sharing of information with CMAL. Richard's team to action.

[REDACTED].

That was the call. In terms of next steps and actions for us:

1. [REDACTED]?

2. [REDACTED].

3. Ec Dev to confirm with TS and Finance the appropriate route to the further diligence work – who should contract / info sharing etc. And write to Jim today if possible confirming our proposal and timeframes on this and seeking his agreement. (I flagged to him that we thought it would be in the order of 3 weeks work).

In terms of timeframes for 1 and 2 – can we have initial views by cop Tuesday with an estimate of further work required if appropriate?

Liz