

**FERGUSON MARINE PORT GLASGOW – UPDATE BRIEFING**  
**OFFICIAL SENSITIVE - COMMERCIAL**

From: Kate Hall  
Deputy Director  
Strategic Commercial Assets Division  
27 September 2022

**First Minister**  
**Deputy First Minister and Cabinet Secretary for Covid Recovery**  
**Minister for Transport**

**FERGUSON MARINE PORT GLASGOW – DUE DILIGENCE ON REVISED COSTS ESTIMATES AND DELIVERY SCHEDULE FOR VESSELS 801 AND 802**

**Priority and Purpose**

1. **Urgent.** There will be significant media coverage relating to Ferguson Marine Port Glasgow (FMPG) following the BBC Disclosure programme to be aired on 27<sup>th</sup> September 2022. On 28<sup>th</sup> September 2022, an update to the Scottish Parliament’s NZET Committee from the CEO of Ferguson Marine will be sent and published on the FMG website at noon prior to a debate in Parliament (copy at Annex A). The CEO’s update will refer to a business case he has shared with SG Ministers which seeks agreement to an increased budget and revised delivery timelines for vessels 801 and 802. This update is shared as a separate document.

This update sets out the internal due diligence and assurance processes that are underway to assess the case for additional funding and changes to the delivery schedule and the proposed “lines to take” in response to this request from FMPG.

**Recommendation**

2. To note:
- the action being taken to assess the request for additional funding from FMPG; and
  - the proposed approach to questions concerning this request.

**Context and Issues**

3. Since June 2022, FMPG have been undertaking a process of due diligence on their cost estimates and programme delivery for vessels 801 and 802. Throughout this period, Officials have communicated consistently the steer provided by Ms Forbes back in June 2022, that there is no “blank cheque” in respect of the delivery of these vessels and that FMPG must also consider what can be achieved within existing budgets.

4. At its meeting of 22<sup>nd</sup> September 2022, the Board of FMPG agreed the Strategic Business case that supports the request for additional funding to complete the two vessels. This request was then submitted to Ministers in the CEO’s monthly report to Ministers dated 23<sup>rd</sup> September 2022 and will be reported to Parliament by the CEO

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in his quarterly update to the NZET Committee which is due to be published on 28<sup>th</sup> September. Copy at Annex B.

5. SG officials have made clear the FMPG that until assessment of their request is complete and any changes agreed with Ministers, the agreed funding and delivery schedule remains as set out by Ms Forbes to Parliament in March 2022. Copy at Annex C. [REDACTED]

6. A summary of the financial estimates and assurance work is provided at Annex D and an overview of programme delivery risks. Annex E provides an update on future business/work to secure a sustainable future for FMPG which references FMPG's progress in securing work with BAE where the initial scope of work is for the manufacture of certain cradles and units for the Type 26 programme. This is positioned as a proving pilot, worth up to £500k, with a view to a longer term and more strategic partnership supporting the Type 26 programme at Govan and submarine programme at Barrow. There is also reference to the contract we now have in place with First Marine International who are undertaking a productivity study and who will provide a draft report with recommendations by the end of October. These packages follow a submission (13 July and copy attached to covering email for ease of reference) which was agreed by the First Minister.

## **Advice**

### **Due diligence processes**

7. Officials have been working with FMPG to ensure that any revised estimates would be as accurate as possible. Draft estimates have varied significantly over this period from around £30m in June to the level of over £74m reported to the Board on 22<sup>nd</sup> September 2022. Annex D includes a table which sets out the changing delivery timelines and budget to date. It also includes a summary of how the proposed increases compare with the current budget.

8. A short term project team was established within the directorate of economic development to ensure the highest degree of assurance and due diligence on the estimates provided by FMPG. This is taking expert independent advice to review:

- the estimated cost to complete vessels 801 and 802;
- related performance and financial reporting
- analysis of benchmarking in the context of the potential direct award of SG-funded vessels; and
- due diligence consistent with the SPFM and Framework Agreement in relation to any additional budget request for completion of the vessels or wider financial support to FMPG.

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9. This approach will provide the Accountable Officers and Ministers with additional assurance by testing the assumptions behind the costs to complete vessels 801 and 802 and robustness of the data.

10. Action has also been taken to ensure that the senior team in FMPG is aware of, and acting upon, the roles and responsibilities of Accountable Officers under the Scottish Public Finance Manual. These have been set out in writing and supported by working sessions focused on State aid and the new subsidy control regime. This is exemplifying the change of approach and additional rigour as part of the establishment of the new Strategic Commercial Assets Division.

11. Scottish Government held a scoping exercise with Teneo on 9<sup>th</sup> September 2022 and Teneo have undertaken site visits to Fergusons meeting the CEO and CFO to focus on the yards current costs estimates and spreadsheets and models before commencing their own detailed analysis of the financial data. In addition, with the support and recommendation of CMAL, we are seeking to appoint an independent shipbuilding expert to provide yet a further layer of scrutiny to the data being reviewed and assessed.

12. Teneo's current work package runs to 14<sup>th</sup> October 2022 and covers:

- action taken to drive down costs;
- an assessment of the data presented and its robustness;
- confidence in financial controls;
- a first review of options analysis assessment of limitations and gaps, next steps to strengthen it and milestones.

13. The delivery timetable for the due diligence exercise is as follows:

**[REDACTED]**

## **Communications**

14. The request for additional funding and changes to the delivery schedule will attract considerable parliamentary scrutiny and media attention. Until due diligence is completed, the following lines to take are proposed:

- a formal request has been made by FMPG;
- this is subject to a rigorous due diligence exercise; and

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- Ministers will assess the outcomes of this exercise and take final decisions on this and subsequent advice from the Principal Accounting Officer.

15. These lines are proposed to be used initially in the Parliamentary debate scheduled for 28<sup>th</sup> September 2022.

**Financial and Legal Considerations**

16. Scottish Government and external legal advisors are providing advice on the development of the business case and related advice to Scottish Ministers. All due diligence will be consistent with the requirements of the Scottish Public Finance Manual and the rules of Government Accounting.

**Quality Assurance**

17. This submission has been cleared by the Director of Economic Development and DG Economy.

**Conclusions and next Steps**

18. This is a critical juncture for Ferguson Marine and for next steps in the build process for vessels 801 and 802. This weeks' BBC Disclosure programme and the notification of further budget pressures on FMPG to Parliament by FMPGs CEO will mark a further phase of scrutiny and questions.

19. Scottish Government is undertaking a rigorous due diligence exercise informed by external financial, legal and technical expertise. A further progress update will be now be provided week commencing 3 October.

**Kate Hall**  
**27 September 2022**

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**ANNEX A – FMGP CEO Report to DFM, Perm Sec – 22 Sept 2022**

- separate document

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

ADDITIONAL BACKGROUND INFORMATION

ANNEX D

Detailed Background

Cost estimates

Financial assurance over the costs to complete was conducted the by Ferguson Marine Port Glasgow (FMPG) Senior Management Team (SMT) and reviewed during the FMPG Board meeting on 22 September. This analysis of the required costs to complete both 801 and 802 was formally endorsed by the Board during this meeting.

- **At the point of public ownership** (December 2019) the cost estimate to complete was £110.3 million to **£114.3 million**.
- FMPG CEO wrote to NZET committee in **March 2022** to inform the cost to complete both vessels had risen from **£114.3 million to £122 million**.
- As per the endorsed FMPG Board figures from 22 Sept the total estimated cost in public ownership to complete vessels 801 and 802 is now **£196 million**. **Not currently in the Public Domain - This information will become public on 28 Sept.**
- Cost estimates presented to the FMPG Board on 22 September show a **£74 million increase in total costs to complete both vessels from the update provided to NZET committee in March 2022** by FMPG Chief Executive. Next update to the committee is due by end September. See comparison table below. **Not currently in the Public Domain - This information will become public on 28 Sept.**
- FMPG are also including a contingency cost estimate of £6.2 million across the two vessels and have increased the previous warranty provision from £3.5 million to £7 million

[REDACTED]

As part of the recent FMPG cost estimates to complete 801 and 802 they have anticipated an income of £6.9m up to march 2024 to help cover costs. It is important to note that If these assumptions do not materialise then this could led to a further request for additional funds from Scottish Ministers.

**801 Cost estimates & Delivery**

The revised estimates have been prepared on the basis of delivery of 801 by end May 2023, and “practical completion” of 802 by end December 2023 with handover now planned for end March 2024.

The yard has undertaken an extensive assurance exercise in respect of the cost estimate for delivering 801.

[REDACTED]

FMPG SMT have also concluded that a 10% contingency should be added which includes the potential costs of one month over-run. The risks of an over-run beyond that are lower and difficult to quantify, perhaps £1m per month.

FMPG's assurance work is ongoing, focussing mainly on the sub-contractor contracts in place and the management of the sub-contracted workers. There is a concern over the management of sub-contractors, specifically the electrical sub-contractor (see below) this is a high risk area for the delivery of 801.

### **802 Cost estimates & Delivery**

The estimated costs to complete have increased by £39 million from the March 2022 letter to NZET. The CEO advises that current best estimate of cost to complete 802 (from 1st August, with ~£1m spent in August) is £70m +5%/-10%

The +5% estimate comes from an assessment of the FMPG risk register and includes delay risks. FMPG have assessed that if 801 is delivered on time, then the risk of a final handover date beyond Mar 2024 is considered low. FMPG are now aiming for practical completion in December 2023 with dry-docking, sea trials and final minor commissioning in early 2024.

The 10% potential saving will be targeted from negotiations with contractors over prices, and a reduction in forecast man-hours. This would only materialise after clarification of scope of work with contractors, and negotiated better prices.

The increase is driven mainly by an increase to labour hours, sub-contract/material costs. There is risk in all key areas of the 802 cost to complete due to the infancy of the assurance process by SMT.

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**Overview- budget and timelines:**

	December 2019	August 2020	June 2021	March 2022	September 2022 <i>note not confirmed but requested by FMPG</i>
<b>801 Delivery Date</b>	Oct to Dec 2021	April to June 2022	July to Sept 2022	March to May 2023	March to May 2023
<b>802</b>	July to Oct 2022	Dec 2022 to Feb 2023	April to July 2023	Oct to Dec 2023	Dec 2023 to Jan 2024
<b>Total cost to complete</b>	£110.3-£114.3m	£110.3-£114.3m	£110.3-£114.3m	£118-£122m	c£196m

Revised Costs to Complete 801/802							Increase March to Sept
	Mar-22			Sep-22			
	Costs to Date	Costs to Complete	Total	Costs to Date	Costs to Complete	Total	
<b>801</b>							
Direct Labour	11	2	13	14	5	19	6
Sub-contract/Materials	25	7	32	36	18	54	22
Overhead	9	2	11	13	3	16	5
SG&A	3	-	3	5	1	6	3
<b>Total</b>	<b>48</b>	<b>11</b>	<b>59</b>	<b>67</b>	<b>27</b>	<b>94</b>	<b>35</b>
<b>802</b>							
Direct Labour	6	10	16	7	14	21	5
Sub-contract/Materials	12	17	29	13	45	58	29
Overhead	6	6	12	8	9	17	5
SG&A	3	3	6	4	3	7	1
<b>Total</b>	<b>27</b>	<b>36</b>	<b>63</b>	<b>32</b>	<b>70</b>	<b>102</b>	<b>39</b>
<b>801 + 802</b>	<b>75</b>	<b>47</b>	<b>122</b>	<b>99</b>	<b>97</b>	<b>196</b>	<b>74</b>

**Further background SG due diligence**

This sets out work planned to add further assurance and due diligence and to ensure SG takes a more proactive stance in the management of the next steps with FMPG and demonstrate a visible shift in our approach to improve oversight, due diligence and improved outcomes.

**AO Assessments**

Due to the additional anticipated costs for the completion of 801 and 802, an AO assessment on the decision to proceed with the build of each vessel will be required. Work to support this assessment has begun and the assessment itself will be made once the necessary due diligence has concluded.

In doing so we would need to be ready to confirm that this work is being done if asked.

This assessment must be undertaken alongside the CEO's assurance exercise and any assurance work that the Board undertake subsequent to this.

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A significant amount of further work is required to fully assess the decision AO assessment for 801 and 802. This work will be supported by an appropriate level of external commercial advice.

Colin Cook, Director of Economic Development, wrote to David Tydeman on 16 Sept reminding him of his financial responsibilities as an Accountable Officer and on points raised by David on the 801 and 802 contracts. Officials have continued to stress that all effort should be made to bear down on costs, and that any request for an increase in budget is not automatically accepted by the Scottish Government, a clear case must be made for it with regard to SPFM and best value principles. This is especially important with regard to the SG Budgetary process, and while the value for money assessment process is taking place.

**Vessel build progress – independent assurance**

An independent view of the level of progress measured on each vessel may also be undertaken through the appointment of an independent shipbuilding consultant to add a further layer of assurance [REDACTED]

[REDACTED]

**2. Key programme risks**

Overall work on Hull 801 is making progress but the **challenges relating to installation of electrical cables, ongoing design rectification and vessel stability are areas of significant concern (further detail below).**

In his August report *the CEO, for the first time has suggested a delay to final delivery of vessel 802.*

The current Board papers refer to practical completion by the end December 2023 and operational delivery by end March 2024. No change to the delivery date (between October and end December 2023) has been agreed with Ministers but the CEO plans to report this change in his September update to NZET.

[REDACTED]

**Sub-Contractor performance issues/installation of electric cables:**  
[REDACTED]

[REDACTED]

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[REDACTED]

**Vessel Weight & Stability:**  
[REDACTED]

[REDACTED]

[REDACTED]

**Close out of Design:**

Ongoing design changes for vessel 801 are related to outstanding technical queries and previously unidentified works. Closure of final design gaps is needed, which remains a risk. This issue remains under the scrutiny of senior management and is being monitored closely. The design changes in question are believed to be major structural work, but on smaller practical, and engineering design issues but nevertheless can involve rework and draw on man hours.

The CEO is also reporting significant ongoing work with their Romanian based design consultants ICE on the closure of the final design spec for vessel 802.

[REDACTED]

[REDACTED]

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[REDACTED]

**ANNEX E**

**Future Work**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



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[REDACTED]

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From: [REDACTED]  
Strategic Commercial Assets Division  
7 October 2022

**First Minister**  
**Deputy First Minister and Cabinet Secretary for Covid Recovery**  
**Minister for Transport**

**FERGUSON MARINE PORT GLASGOW – DUE DILIGENCE ON REVISED COST ESTIMATES AND DELIVERY SCHEDULE FOR VESSELS 801 AND 802**

**Priority and Purpose**

1. **Routine.** Further to the FMPG CEO's letter to the NZET committee of 28 September 2022, this submission provides an update on the internal due diligence and assurance processes underway to assess the additional funding request and revised delivery schedule for both vessels.

**Recommendation**

2. To note the action being taken to assess the request for additional funding from FMPG.

**Context and Issues**

3. Since June 2022, FMPG has been undertaking a process of due diligence on the cost estimates and programme delivery for vessels 801 and 802. Throughout this period, Officials have maintained the position described by Ms Forbes back in June 2022, that there is no "blank cheque" in respect of the delivery of these vessels and that FMPG must also consider what can be achieved and delivered within existing budgets.

4. The CEO's letter to the NZET Committee stated a £80.6 million (net of warranties) increase in total costs to complete both vessels compared to the update provided to the Committee in March 2022.

5. A short-term project team has been established within the Directorate of Economic Development to ensure the highest degree of assurance and due diligence on the cost and delivery estimates provided by FMPG. This work is being supported by commercial advisers, Teneo. Their current work covers:

- action taken by FMPG to drive down costs;
- an assessment of the current cost estimates presented by FMPG to test the underlying assumptions and robustness of the data;
- a review of forecasting accuracy to test the confidence in financial controls; and
- a first review of the options analysis assessment of limitations and gaps with next steps to strengthen it and milestones.

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**Update on Due Diligence**

6. The first phase of Teneo's work has focussed on the base case financial forecasts for completion of vessels 801 and 802 provided by FMPG. This is testing the internal processes of FMPG to assess current financial controls and the assumptions underpinning the data provided. As advised in the previous update, SG has also engaged a shipbuilding expert, Woodbank Marine Limited, to add further rigour and market expertise to Teneo's sensitivity analysis.

7. [REDACTED]

8. Teneo will be probing other areas of interest such as the potential underutilisation of staff as the delivery schedules progress, warranty costs and any further re-work that will be required on the vessels (and the associated labour costs). Work will also be carried out, with the support of the shipbuilding expert, to understand cost assumptions and the implications of third party contracts not being delivered.

**Communications**

9. The request for additional funding and changes to the delivery schedule will attract considerable parliamentary scrutiny and media attention. Until due diligence is completed, the following lines to take are proposed:

- a formal request for additional funding has been made by FMPG;
- this is subject to a rigorous due diligence exercise; and
- Ministers will assess the outcomes of this exercise and take final decisions on this and subsequent advice from the Principal Accounting Officer.

**Financial and Legal Considerations**

10. Scottish Government and external legal advisors are providing advice on the development of the business case and related advice to Scottish Ministers. All due diligence will be consistent with the requirements of the Scottish Public Finance Manual and the rules of Government Accounting.

**Quality Assurance**

11. This submission has been cleared by the Director of Economic Development and DG Economy.

**Conclusions and next Steps**

12. Scottish Government is undertaking a rigorous due diligence exercise informed by external commercial, legal and technical expertise. A further progress update will be provided week commencing 17 October.

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**ANNEX A**

**SIGNIFICANT EVENTS**

- 22 September (11:00) – FMPG Board meeting where there is agreement to the CEOS cost estimates and delivery schedule
- 22 September (20:26) – FMPG CEO send monthly update and letter to DFM and Permanent Secretary and proposed quarterly update letter to NZET Committee (report is dated 23 September)
- 26 September (09:45) – DFM met with CEO and Chair of FMPG
- 27 September (08:50) – Updated copy of CEO's letter to NZET Committee shared with DFM and Permanent Secretary
- 28 September (09:44) – FMPG CEO quarterly update to NZET committee
- 28 September (11:00) – Publication of July FMPG programme update by SG on SG website
- 28 September (12:00) – Publication of CEO Letter by FMPG on FMPG website
- 28 September (14:50) – Ferries debate & statement in Parliament, Minister for Transport and DFM (opening and closing speeches respectively)
- 6 October (13:30) – DFM meeting with CEO as part of regular monthly schedule

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From: Kate Hall  
Deputy Director  
Strategic Commercial Assets Division  
21 October 2022

**First Minister**  
**Deputy First Minister and Cabinet Secretary for Covid Recovery**  
**Minister for Transport**

**FERGUSON MARINE PORT GLASGOW – DUE DILIGENCE ON REVISED COST ESTIMATES AND DELIVERY SCHEDULE FOR VESSELS 801 AND 802**

**Priority and Purpose**

1. Routine. This submission updates the information provided on 7<sup>th</sup> October 2022 on the due diligence being undertaken on the cost estimates and delivery schedules for vessels 801 and 802. It provides:

- an update on work by internal and external advisers, including scope, options analysis, and the scrutiny and challenge being applied to the cost estimates;
- the timetable for next steps, including action proposed in response to the updated cash flow profile received from the Chief Financial Officer of FMPG;
- an update on progress of the build of vessels 801 and 802.

**Recommendation**

2. To note progress to date, emerging issues and proposed next steps.

**Context and Issues**

3. Since June 2022, FMPG has been undertaking an internal process of due diligence on cost estimates and delivery schedules for vessels 801 and 802. Officials have communicated consistently the clear message provided by Ms Forbes in June 2022, that there is no “blank cheque” and that FMPG must also consider what can be achieved and delivered within existing budgets.

4. Following agreement by the Board of FMPG, the CEO wrote to the NZET Committee on 28 September 2022 stating that a further £80.6 million (net of warranties) would be required to complete both vessels compared to the budget of £122m (net of warranties) set out to Parliament by Ms Forbes on 23<sup>rd</sup> March 2022. This includes a contingency of £6.2 million, split £2.7 million for 801 and £3.5 million for 802. [REDACTED]

5. A short-term project team has been established within the Directorate of Economic Development to ensure the highest degree of assurance and due diligence on the cost and delivery estimates provided by FMPG. This work is being supported by three independent advisers:

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[REDACTED]

- Teneo – financial due diligence and commercial;
- Woodbank Marine (independent shipbuilding advice).

**Update on Due Diligence Scrutiny**

**Interim update from Independent Financial Advisers - Teneo:**

6. Since early October, the Teneo project team have been visiting the yard regularly and engaging in a constructive dialogue with the management team at FMPG. They have also engaged with our independent shipbuilding advisor and met with Kevin Hobbs, CEO CMAL.

7. A progress update provided by Teneo on 17<sup>th</sup> October is summarised at Annex A. It provides an overview of their work to date and a commentary on the historical cost pattern and changes in approach since the current CEO was appointed in February 2022. A full and final analysis of the cost estimates will be provided, as agreed, on 28<sup>th</sup> October 2022 and we are working with FMPG to ensure that Teneo are provided with the outstanding data they require to meet this deadline.

8. The following points should be noted from this update:

[REDACTED]

9. The immediate next steps for Teneo are to:

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[REDACTED]

**Independent shipbuilding expert**

10. An independent shipbuilding expert, [REDACTED] from Woodbank Marine Ltd (WML) has been appointed to work alongside Teneo. He has provided a report on his initial findings provided separately to this submission.

11. The initial report suggests that the plans in place are reasonable and could be achievable, but that there remains significant areas of risk. In particular:

[REDACTED]

**Current Build Progress**

12. In addition to the formal monthly report, FMPG are now producing “sequencing reports” for SG on a weekly basis.

13. [REDACTED]

14. CMAL assess that delivery of both vessels to the projected schedules will be very tight and assumes that the performance of sub-contractors continues to improve and that there are no major new issues. They note that there are a series of outstanding issues around 801 and are concerned that the focus on delivering 801 might have a knock on, detrimental, effect on the timetable for 802.

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**Future business planning and Potential BAE work for the yard**

15. [REDACTED]

[REDACTED]

[REDACTED]

**Productivity Study**

18. Scottish Government has appointed First Marine International to provide a study report on the investment that the yard will require to become more commercially competitive. A draft report is expected by the end of October, with the final report to follow in mid-November. As part of this work, FMI have already reported a slight improvement in FMPG's productivity compared with a similar analysis carried out in 2021. Albeit small, this improvement would suggest that the changes made recently by the new CEO are beginning to have a positive impact.

**Financial Assessment process**

19. In line with the Scottish Public Finance Manual, any further funding for vessels 801 and 802 outwith the agreed £122 million is dependent on the completion of a business case and the proposal from FMPG being able to satisfy the accountable officer tests of regularity, propriety and value for money. Based on completion of the various strands of work described above, it is anticipated that advice to Ministers on funding will be submitted by end November 2022. This advice will be considered, prior to submission, by the Principal Accounting Officer and will include an assessment of a variety of different scenarios around the completion of the vessels and future direction of the yard.

**FMPG Cash Flow**

20. FMPG shared with us (for the first time) on 11 October a monthly cash flow analysis for the remainder of the financial year (**Annex B**). Whilst the quantum is consistent with that set out in the CEOs letter to the NZET Committee on 28 September, the profile is updated from indicative numbers presented to the FMPG Board on 22 September.



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21. To 30 September 2022, FMPG have spent £109.5 million of the £122 million agreed budget. Recent forecasted figures show c£6 million spend per month for October and November, taking the total spend close to or breaching the £122 million.

22. This revised cash flow suggests that FMPG may now run out of cash at the end of November. This aligns precisely to the planned decision point on future funding. However, given the potential for a delay in that process it is considered prudent, at this stage, to prepare an Accountable Officer template requesting AO and Ministerial approval to make additional payments to Ferguson Marine above the current budget envelope if these are required to enable the business to continue trading whilst the wider VFM assessment for the full amount is being undertaken.

**Quality Assurance**

23. This submission has been cleared by the Director of Economic Development and DG Economy.

**Conclusions and next Steps**

24. The FM and DFM are asked to note the update and planned next steps around the delivery of vessels 801 and 802.

Kate Hall  
Deputy Director  
Strategic Commercial Assets Division

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**Annex A:**

**Teneo - Review of updated cost estimate - 17 October**

**Overview of work**

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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**Annex B**

[REDACTED]

[REDACTED]

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From: Kate Hall  
Deputy Director  
Strategic Commercial Assets Division  
15 November 2022

**First Minister**  
**Deputy First Minister and Cabinet Secretary for Covid Recovery**  
**Minister for Transport**

**FERGUSON MARINE PORT GLASGOW – TIMELINES ON DUE DILIGENCE ON REVISED COST ESTIMATES AND DELIVERY SCHEDULE FOR 801 AND 802**

**Priority and Purpose**

1. Routine. This submission provides an update on:
  - the timelines on the due diligence being undertaken on the cost estimates and delivery schedules for vessels 801 and 802 (overview timeline at Annex A)
  - and an update on action taken by FMPG on the sensors relating to vessel 801's LNG system.

**Recommendation**

2. To note progress to date, emerging issues and proposed next steps.

**Context and Issues**

3. Since June 2022, FMPG has been undertaking an internal process of due diligence on cost estimates and delivery schedules for vessels 801 and 802. Officials have communicated consistently the clear message provided by Ms Forbes in June 2022, that there is no “blank cheque” and that FMPG must also consider what can be achieved and delivered within existing budgets.

4. Following agreement by the Board of FMPG, the CEO of FMPG wrote to the NZET Committee on 28 September 2022 stating that a further £80.6 million (net of warranties) would be required to complete both vessels compared to the budget of £122m (net of warranties) set out to Parliament by Ms Forbes on 23 March 2022. The request for additional funding on 28 September 2022 includes a contingency of £6.2 million, split £2.7 million for 801 and £3.5 million for 802. The CEO of FMPG also noted that these numbers are underpinned by the assumption that the yard secures [REDACTED]

These would otherwise add further budgetary pressures.

5. A short-term project team has been established within the Directorate of Economic Development to ensure the highest degree of assurance and due diligence on the cost and delivery estimates provided by FMPG.

**FERGUSON MARINE PORT GLASGOW – UPDATE BRIEFING**  
**OFFICIAL SENSITIVE - COMMERCIAL**

**Update from Independent Commercial Advisers - Teneo**

6. Since early October, our commercial advisers, Teneo, have been visiting the yard regularly and engaging in a constructive dialogue with the senior management team and operations team at FMPG. They have also engaged with our independent shipbuilding advisor and met with Kevin Hobbs, CEO CMAL.

7. A summary of expected points made by Teneo in their report is summarised at Annex B. This report contains a full and final analysis of the cost estimates. The final document has been shared with the CEO at FMPG (8 November) for fact checking and a final version will be submitted **w/c 14 November** to Scottish Government. The two week delay to the original timetable is due to challenges in obtaining robust data from FMPG and as a consequence of the potential impacts of the LNG sensor issue identified and reported to SG on 27 October. We have been pressing FMPG to ensure Teneo are given any factual updates no later than close on Monday 14 November.

**FMPG Cash Flow**

8. FMPG shared with us (for the first time since May 2022) on 11 October a monthly cash flow analysis for the remainder of the financial year linking to the programme for delivery (Annex C). Whilst the quantum is consistent with that set out in the CEOs letter to the NZET Committee on 28 September, the profile is updated from indicative numbers presented to the FMPG Board on 22 September.

9. To 31 October 2022, FMPG have spent £114.5 million of the £122 million agreed budget.

10. **[REDACTED]**

Given the ongoing due diligence it is considered prudent, at this stage, to prepare an Accountable Officer template requesting AO and Ministerial approval to make additional payments to Ferguson Marine above the current budget envelope to enable the business to continue trading whilst the wider VFM assessment for the full amount is being undertaken. This assessment is currently being reviewed by officials and we expect to send a recommendation to Ministers week of 14 November.

**Financial Assessment process & Timeline**

11. In line with the Scottish Public Finance Manual (SPFM), any further funding for vessels 801 and 802 outwith the agreed £122 million is dependent on the completion of a business case and the proposal from FMPG being able to satisfy the accountable officer tests of regularity, propriety and value for money. Based on completion of the required work, a draft AO assessment will be developed to the Principal Accountable Officer. This will include an assessment of a variety of different scenarios around the completion of the vessels and future direction of the yard.

12. An important part to this will be a completed business plan which we have for months pressed FMPG CEO and Chair for to support assessments relating to the longer term viability of the shipyard. In the absence of this, we are seeking to build a reasonable evidence base to underpin the wider AO assessment process. As part of

**FERGUSON MARINE PORT GLASGOW – UPDATE BRIEFING**  
**OFFICIAL SENSITIVE - COMMERCIAL**

the draft AO assessment we will consider how much further it would be strengthened with a final business plan and will return with Ministers with further advice in December.

**Futures Workstream**

13. The First Minister agreed in July that, while the preferred future for Ferguson Marine is to secure commercial work on its own merits, further work should be undertaken on both the potential for direct award of SG-funded vessels and the credibility of private sector interest in partnering with or acquiring Ferguson Marine.

14. [REDACTED]

[REDACTED]

15. We are working with colleagues across SG, Transport Scotland, Marine Scotland and CMAL to establish what a robust and defensible direct award process might look like in practice without straying into any discussion of likely procurement or any matters relating to vessel specification to ensure there is no potential conflict or sharing of information which could put FMPG at an advantage in a competitive environment. For CMAL vessels, we are also aiming to assess how any changes to support direct award might impact on Project Neptune (review of existing structures of ferries bodies).

**Weekly Update on LNG sensors**

16. I have asked for a further update from the CEO on progress both with his report into the sensor options (from an FMPG perspective) and progress on seeking to expedite the delivery date. He has advised on 10 November as follows:

- FMPG have been focusing this week to ensure they have the design of the sensor skid and the system right,
- FMPG are engaging with the supplier of the sensors (Wartsila) and Lloyds to try to simplify/optimize the system to minimize the number of Sensors and where they sit in the system but it needs the certification authority to agree the proposals.

17. I have asked the CEO to ensure he must continue to chase delivery whilst this work continues in parallel. The CEO has said he will provide a more considered report on the options for next steps by the beginning of January. Kevin Hobbs confirmed the sensors have been ordered, CMAL and FMPG are collectively engaging with Wartsila, who are in turn speaking to their global supply chain, to see if there can be a reduction in delivery time.

**FERGUSON MARINE PORT GLASGOW – UPDATE BRIEFING**  
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**Quality Assurance**

18. This submission has been cleared by the Director of Economic Development and DG Economy.

**Conclusions and next Steps**

19. The FM and DFM are asked to note the update and planned next steps around the delivery of vessels 801 and 802.

Kate Hall  
Deputy Director  
Strategic Commercial Assets Division





**FERGUSON MARINE PORT GLASGOW – UPDATE BRIEFING**  
**OFFICIAL SENSITIVE - COMMERCIAL**

**Annex B**

**Summary of points from Teneo**  
[REDACTED]

[REDACTED]

[REDACTED]

**FERGUSON MARINE PORT GLASGOW – UPDATE BRIEFING**  
**OFFICIAL SENSITIVE - COMMERCIAL**

[REDACTED]

[REDACTED]

From: Kate Hall  
Directorate for Economic Development / SCAD  
10 May 2023

**DEPUTY FIRST MINISTER AND CABINET SECRETARY FOR FINANCE**

**CABINET SECRETARY FOR WELLBEING ECONOMY, FAIR WORK AND ENERGY**

**FERGUSON MARINE: OVERVIEW OF FORTHCOMING STRATEGIC DECISIONS AND PROPOSED NEXT STEPS**

**Priority and Purpose**

1. Immediate. To provide further advice on the decisions required to continue the delivery of vessels 801 and 802 at Ferguson Marine Port Glasgow (FMPG). This follows the meeting with the First Minister on 3 May 2023.

**Recommendation**

2. To consider and review the content of this submission ahead of any further advice from the Accountable Officer. Subject to your agreement, final advice will be provided on 11 May.

**Background**

3. The strategic outcomes sought when FMPG was taken into public ownership were to ensure completion of new lifeline ferry services (vessels 801 and 802) and secure a sustainable future for the shipyard, thereby retaining jobs and key commercial shipbuilding skills in Scotland and strengthening national resilience. Whilst the delivery of vessels 801 and 802 has been hampered by delays and budget overruns, their importance in terms of essential service and network resilience remains extant and has arguably strengthened given the increasingly ageing ferry fleet and well publicised challenges in securing temporary replacement vessels (cost and uncertainty).
4. In September 2022, the CEO of FMPG provided the NZET Committee and Ministers with an updated forecast of costs to complete both 801 and 802. Ministers advised the Parliament at the time that we would undertake independent due diligence of the CEO's cost estimates to complete the vessels to ensure the highest degree of accountability and assurance in the use of public funds.
5. Whilst this due diligence was completing, the CEO of FMPG wrote to the NZET committee on 16 March 2023 with revised dates for the delivery of both vessels with an Autumn handover for 801 (with contractual backstop of end Dec 2023), and mid 2024 for 802 (with contractual backstop of Dec 2024). Ministers have not agreed to these revised delivery dates, but it will be necessary to formally respond to provide FMPG with contractual assurance.

## Value for Money Analysis

6. The CEO's September 2022 update presented revised cost estimates for the completion of vessels 801 and 802 within the shipyard. This suggested that the cost to complete both vessels was an additional £80.5m (plus warranties) compared to the previous forecast total of £122 million provided in March 2022. This provided a total cost estimate for completing both vessels since public ownership of £202.5 million (plus warranties). Given historic concerns about the accuracy of forecasts, these numbers have been interrogated rigorously both by officials and external commercial experts (Teneo).

[REDACTED]

8. As required in assessing any bid for public funding of this scale, due diligence work has included a full assessment of costs and benefits associated with completing both the vessels and an assessment of alternative options to building either or both ferries as part of an options analysis and value for money (vfm) assessment. This involved Teneo working with FMPG for 2.5 months on the financial data that underpinned the vessel figures with support from a shipbuilding expert. Teneo also carried out an economic impact assessment to ensure that the AO process considered all relevant benefits.
9. Since the initial review, Teneo have undertaken a short stress test review on draft emerging numbers that were presented by the CEO to the FMPG Board on 30 March 2023. This has built on work since September 2022 on the costs. In the time available, Teneo assessed the credibility of no change in costs given the vessel slippage.
10. The table below therefore assesses the value for money of completing both vessels at FMPG based on the profile of costs still to go as at 31 March 2023. In line with the SPFM and Green Book, there is no consideration of costs incurred prior to 31 March 2023 in the value for money assessment as these are considered sunk for the purpose of the immediate decision. This includes the additional funding of £6.7m and £21m in 22/23 at ABR and SBR respectively.
11. Given the advanced stage of completion of vessel 801 and with current costs to complete the vessel of [REDACTED] the case for completion is easily made even on the narrow value for money assessment.

<b>Options Appraisal - Financial Cost to Government based on costs to go at end March 2023</b>			
	<b>802 Delivered</b>	<b>802 Alternative</b>	<b>Difference</b>
<b>Vessel Build Costs</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>
801 Cost to Complete			
802/Alt Cost to Complete			
<i>Delivery Estimate</i>			
Cost of Delayed Delivery			
<b>Vessel Build/Reprocure Costs</b>			
Net (costs)/benefits (direct only) of delivery of the vessels	<b>[REDACTED]</b>		
Net (costs)/benefits (indirect) of delivery of the vessels			

12. Given the less developed build stage for vessel 802 and the scheduled delivery date (backstop end 2024) the equivalent value for money judgement cannot be made in respect of this vessel. Even when the costs and delays of running a procurement for a new vessel and consequent disruption of this delay are taken into account, a financial vfm gap of [REDACTED] remains. Given Teneo also consider that based on FMPG's track record to date it is likely this number would only increase in the months ahead, it is likely the gap would widen in future not decrease.

13. The Green Book which is required to be followed in assessment of value for money, allows the direct benefits of delivering the vessels of [REDACTED] alone to be factored into the calculation, bringing the vfm gap down to [REDACTED]. The indirect and induced benefits of [REDACTED] which relate primarily to impacts on other businesses in the local economy can also be taken into account as part of the wider economic case.

[REDACTED]

[REDACTED]

[REDACTED]

15. As requested by the Cabinet Secretary on 10 May, Teneo further stress tested this position with CMAL and TS. [REDACTED]

16. There remains a significant risk that costs on 802 could increase yet further given the early stage of the build and the potential for further cost increases due to design adaptations – which may also result from lessons learned on vessel 801. This would only increase the value for money gap on 802. Teneo have assessed these as including:

[REDACTED]

### **Request for capital investment**

[REDACTED]

18 [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

### **Financial Overview and Written Authority**

22. When the CEO of FMPG set out the revised cost estimates in September 2022 there was c£15m left of the budget agreed with Ministers in March 2022. As the due diligence was still to conclude, the former DFM provided two further funding elements (15m in December 2022 and £6m in March 2023). This has ensured that FMPG could continue to meet its commitments to progress the construction of the vessels whilst the due diligence completed. Whilst this money has been passed to FMPG it still remains subject to the overall vfm consideration.
23. The urgency for a decision on this full funding amount is now acute for two reasons. First, now that the due diligence assessment is complete and we are have all the data required on which to make a decision. There would therefore be justifiable criticism if Scottish Ministers and AOs did not consider the advice in an appropriate timeframe and to avoid a decision by default (by continued spend).. Second FMPG has incurred costs on spend for April and there is currently no allocation for that approved by ministers pending this decision on funding. Therefore with the payment to FMPG due to be made on 15 May, it is necessary to have AO approval for that funding. Parliament also require to be advised of that.



24. Whilst there is a £57.6m capital allocation in the SG budget for 2023-24 and this was announced in the Dec 2022 Budget statement, it was made clear by the former DFM at the time that this funding was also subject to completion of the full due diligence. This point was made repeatedly by the former FM and DFM, and the former FM referenced it in her evidence to the PAC in November 2022. Given the costs to complete is estimated as [REDACTED] this will be insufficient to meet the overall costs to complete and with 802 delayed until at least mid-2024 funding into that financial year will be required.

25. [REDACTED]

26. There is also sufficient evidence from the due diligence process now to support a decision for the AO. In summary, the position is that 801 can continue to be funded but 802 is not value for money and will require a written authority.

27. AOs are under a statutory duty to obtain written authority from the relevant Minister where they consider that any action they are required to take would be inconsistent with their responsibilities. These include ensuring financial propriety, regularity and ensuring that relevant resources are used economically, efficiently and effectively. Whilst written authorities are not commonly used in Scotland, this approach shows Scottish Government's commitment to good governance, transparency and a robust due diligence. A draft letter of a written authority is provided in Annex A.

28. It is advised that there is no specific number allocated in the request given the uncertainties of the potential final cost. Furthermore, there will also be a need to ensure that no claim could be made that there is a 'blank cheque' for the vessels. As part of the correspondence, we would set out a strengthened approach to the monitoring with commercial advisers providing quarterly reports on the financial arrangements to deliver the vessels. This would sit alongside the structure with CMAL as technical advisers and ensure that Ministers are sighted on the ongoing financial position and if any previous agreement, such as the written authority, had to be revisited.

29. Whilst the vfm calculation described above forms the basis of the Accountable Officer assessment, Ministers are able to take wider considerations and implications into account when arriving at a decision on how to proceed with the delivery of vessel 802. These would include:

- the potential impact on island communities from the new timetable and the uncertainties of a new procurement process;
- the impact that terminating the contract might have on our ability to secure a long-term future for the yard in line with original Ministerial objectives;

- the loss of valuable skills and capabilities in commercial shipbuilding.

### **Parliamentary Handling**

30. Ministers have committed to transparency in relation to significant decisions on Ferguson Marine Port Glasgow and have confirmed that updates would be provided once the due diligence concluded. Furthermore, the written authority process sets out that once a response is received the AO must, without undue delay, pass copies of the request for the authority and the authority itself to the Auditor General and the Public Audit Committee.
31. Therefore, once correspondence had been exchanged then we would advise that a Parliamentary Statement would be the most appropriate way of updating Parliament. This could be discussed at the Business Bureau on 16 May to ensure a statement as soon as possible that week. The timing of sending the correspondence required to Audit Scotland and the Parliament should be aligned to ensure consistency in the transparency of reporting the decision of Ministers. The wider narrative would be a key aspect to this and set out the rationale for ongoing investment in the vessels.
32. We would advise that the Written Authority should include explicit reference to an expectation of clear governance and accountability placed on FMPG for assurance and oversight of the costs of delivery of both these vessels. We will provide a letter to go to the Board and CEO of FMPG to ensure they are aware of the new approach to the scrutiny of the financials to deliver of the vessels and that all efforts must go on minimising any cost increases. This would also be communicated to the Parliament.

### **Quality Assurance**

33. This Submission has been approved by Director of Economic Development and DG Economy

### **Conclusions and next Steps**

34. Ministers are asked to note that a decision is required this week in order to ensure any fund can then be released to FMPG on 15 May to support ongoing progress on the build of vessels 801 and 802. The due diligence is now complete and this will support the preparation of an AO assessment which would include the value for money assessment set out in this submission..
35. If Ministers are minded to agree to continue the build of both vessels then the announcement will require significant care in Parliamentary handling and the messaging. If you are content to progress with the build of vessel 802, we will provide a detailed handling plan on 11 May along with a formal request for a written authority and draft reply for consideration. Prior to that we have attached a draft of the proposed formal notification to Ministers in respect of the vfm case and requirement for a Written Authority.
36. We would welcome any comments from Ministers prior to any submission on 11 May.

**Kate Hall**

Strategic Commercial Assets Division

Cabinet Secretaries and Ministers Copy List	For Action	For Information Portfolio interest	For Information Constituency interest	For Information General awareness
First Minister	X			
Deputy First Minister	X			
Cabinet Secretary for Wellbeing Economy, Fair Work and Energy	X			
Permanent Secretary DG Economy Director Economic Development				
Chief Financial Officer				
Andrew Bruce				
Kate Hall				
[REDACTED]				
[REDACTED]				
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[REDACTED]				
[REDACTED]				
[REDACTED]				
Callum McCaig				
Colin MacAllister				
[REDACTED]				

**Draft Written Authority**

From: Kate Hall  
Directorate of Economic Development  
12 May 2023

**FIRST MINISTER**

**DEPUTY FIRST MINISTER AND CABINET SECRETARY FOR FINANCE**

**CABINET SECRETARY FOR WELLBEING ECONOMY, FAIR WORK AND ENERGY**

**FERGUSON MARINE: OVERVIEW OF FORTHCOMING STRATEGIC DECISIONS AND NEXT STEPS**

### **Priority and Purpose**

1. Immediate. To provide final advice on the decisions required to continue the delivery of vessels 801 and 802 at Ferguson Marine Port Glasgow (FMPG). This follows advice on 10 May 2023 and 21 April.

### **Recommendation**

2. To consider and review the content of this submission and provide a response on the letter sent from the Accountable Officer (AO) on 12 May 2023 (Annex A). A draft is provided in Annex C. Also, to provide a view on choreography and timing of Parliamentary handling and stakeholder engagement.

### **Background**

3. The strategic outcomes sought when FMPG was taken into public ownership were to ensure completion of new lifeline ferry services (vessels 801 and 802) and secure a sustainable future for the shipyard, thereby retaining jobs and key commercial shipbuilding skills in Scotland and strengthening national resilience. Whilst the delivery of vessels 801 and 802 has been hampered by delays and budget overruns, their importance in terms of essential service and network resilience remains extant and has arguably strengthened given the increasingly ageing ferry fleet and well publicised challenges in securing temporary replacement vessels (cost and uncertainty).
4. In September 2022, the CEO of FMPG provided the NZET Committee and Ministers with an updated forecast of costs to complete 801 and 802. Ministers advised the Parliament at the time that we would undertake independent due diligence of the CEO's cost estimates to complete the vessels to ensure the highest degree of accountability and assurance in the use of public funds.
5. Whilst this due diligence was completing, the CEO of FMPG wrote to the NZET committee on 16 March 2023 with revised dates for the delivery of both vessels with an Autumn handover for 801 (with contractual backstop of end Dec 2023), and mid 2024 for 802 (with contractual backstop of Dec 2024). Ministers have not agreed to these revised delivery dates, but it will be necessary to formally respond to provide FMPG with contractual assurance.

## Value for Money Analysis

6. The CEO's September 2022 update presented revised cost estimates for the completion of vessels 801 and 802 within the shipyard. This suggested that the cost to complete both vessels was an additional £80.5m (plus warranties) compared to the previous forecast total of £122 million provided in March 2022. This provided a total cost estimate for completing both vessels since public ownership of £202.5 million (plus warranties). Given historic concerns about the accuracy of forecasts, these numbers have been interrogated rigorously both by officials and external commercial experts (Teneo).
7. The conclusion of this due diligence work now assesses that the overall cost to complete is currently estimated at [REDACTED] (including contingencies) which is an increase of [REDACTED] compared to the forecast provided by FMPG in September 2022.
8. The submission on 10 May 2023 set out the details of the value for money assessment (previous submissions detailed it also). In summary;
  - a. given the advanced stage of completion of vessel 801 and with current costs to complete the vessel of [REDACTED] the case for completion is easily made even on the narrow value for money assessment.
  - b. Given the less developed build stage for vessel 802 and the scheduled delivery date (backstop end 2024) the equivalent value for money judgement cannot be made in respect of this vessel and the vfm gap is assessed as [REDACTED]. Teneo also consider that based on FMPG's track record to date it is likely this number would only increase in the months ahead, and therefore the gap would likely widen in future not decrease.

## Financial Overview and Written Authority

9. The urgency for a decision on this full funding amount is now acute for two reasons. First, now that the due diligence assessment is complete and we are have all the data required on which to make a decision. There would therefore be justifiable criticism if Scottish Ministers and AOs did not consider the advice in an appropriate timeframe and to avoid a decision by default (by continued spend).. Second FMPG has incurred costs on spend for April and there is currently no allocation for that approved by ministers pending this decision on funding. **Therefore with the payment to FMPG due to be made on 15 May, it is necessary to have AO approval for that funding. Parliament also require to be advised of that.**
10. There is also sufficient evidence from the due diligence process now to support a decision for the AO. **In summary, the position is that 801 can continue to be funded but 802 is not value for money and will require a written authority.**
11. AOs are under a statutory duty to obtain written authority from the relevant Minister where they consider that any action they are required to take would be inconsistent with their responsibilities. These include ensuring financial propriety, regularity and ensuring that relevant resources are used economically, efficiently

and effectively. Whilst written authorities are not commonly used in Scotland, this approach shows Scottish Government's commitment to good governance, transparency and a robust due diligence. The AO has sent a request for written authority on 12 May (Annex A).

12. It is advised that there is no specific number allocated in the request given the uncertainties of the potential final cost. Furthermore, there will also be a need to ensure that no claim could be made that there is a 'blank cheque' for the vessels. As part of the correspondence, we have set out a strengthened approach to the monitoring with commercial advisers providing quarterly reports on the financial arrangements to deliver the vessels. This would sit alongside the structure with CMAL as technical advisers and ensure that Ministers are sighted on the ongoing financial position and if any previous agreement, such as the written authority, had to be revisited.
13. Whilst the vfm calculation described above forms the basis of the Accountable Officer assessment, Ministers are able to take wider considerations and implications into account when arriving at a decision on how to proceed with the delivery of vessel 802. These would include:
  - the potential impact on island communities from the new timetable and the uncertainties of a new procurement process;
  - the impact that terminating the contract might have on our ability to secure a long-term future for the yard in line with original Ministerial objectives;
  - the loss of valuable skills and capabilities in commercial shipbuilding.
14. I have attached a narrative that sets out these considerations in more detail (Annex B) and this forms part of a draft response for you to consider (Annex C). This response will be required in order for the AO to approve the release of funds on Monday 15 May to FMPG.

### **Parliamentary Handling & Choreography**

15. Ministers have committed to transparency in relation to significant decisions on Ferguson Marine Port Glasgow and have confirmed that updates would be provided once the due diligence concluded. Furthermore, the Written Authority process sets out that once a response is received the AO must, "without undue delay", pass copies of the request for the authority and the authority itself to the Auditor General and the Public Audit Committee. Once these are provided to the Public Audit Committee then they would be in the public domain.
16. Once the written authority had been provided, we would advise that Cabinet are informed on Tuesday 16 May with the proposal to either deliver a Statement or Debate in Parliament that week. This could be agreed with the Business Bureau on 15/16 May to ensure an appropriate slot as soon as possible that week. The timing of sending the correspondence required to Audit Scotland and the Parliament by DG Economy would be aligned and sent around the announcement to Parliament by Ministers to ensure consistency in the transparency of reporting the decision of Ministers.

17. Ministers will wish to note that the Deputy First Minister is attending the Finance and Public Administration on the morning of 16 May which would be ahead of any possible Chamber announcement relating to the funding and any Written Authority. This FPAC meeting will be focusing on the topic of Effective Scottish Government decision-making.
18. Should an announcement of a Statement or Debate have been made by that time the DFM may refer to that as a means of setting out the Government's decision. There could be a risk of criticism by the Presiding Officer should the DFM formally announce the Written Authority ahead of the Cabinet Secretary doing so to the full Parliament. Ministers will therefore wish to consider their preferences for this sequencing.
19. A Statement or Debate could be tabled for Tuesday afternoon and the letters published at the start of that. A Debate would clearly leave open the topic straying to much broader areas whereas a Statement would be a shorter and more narrowly defined parliamentary process which would still provide for the necessary transparency and oversight. The Cabinet Secretary could provide a letter to Parliament on Monday once the payment has been made notifying of the decision but this would likely attract criticism of not offering sufficient transparency or opportunity for Parliamentarians to engage and could attract criticism from the Presiding Officer given the importance of the announcement.
20. On balance therefore a Statement or Debate would be optimal. With Parliament informed of the title, then should the DFM be asked at FPAC about funding she could refer them to the planned Statement/Debate later that day when the full Parliament would be informed. I have set out a timeline in Annex D with a list of stakeholders that would be engaged.

### **Conclusions and next Steps**

21. Ministers are asked to note that a decision is required this week in order to ensure any funds can then be released to FMPG on 15 May to support ongoing progress on the build of vessels 801 and 802. The due diligence is now complete and this will support the preparation of an AO assessment which would include the value for money assessment set out in this submission. A draft response is included in Annex C.
22. If Ministers are minded to agree to continue the build of both vessels then the announcement will require significant care in Parliamentary handling and the messaging. I would be grateful for views on Ministers' view on the Parliamentary handling.
23. I would be grateful for a response to the AO's letter in Annex A and I would be happy to discuss this with you.

Kate Hall  
**Directorate of Economic Development**



Cabinet Secretaries and Ministers Copy List	For Action	For Information Portfolio interest	For Information Constituency interest	For Information General awareness
First Minister	X			
Deputy First Minister	X			
Cabinet Secretary for	X			
Wellbeing Economy, Fair				
Work and Energy				
Minister for Parliamentary		X		
Business				
Minister for Transport		X		
Permanent Secretary				
Lord Advocate				
Solicitor General				
DG Economy				
Director Economic				
Development				
Chief Financial Officer				
Legal Secretary to the Lord				
Advocate				
Andrew Bruce				
Kate Hall				
[REDACTED]				
[REDACTED]				
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[REDACTED]				
[REDACTED]				
[REDACTED]				
[REDACTED]				
Callum McCaig				
Colin MacAllister				
[REDACTED]				

**Request for Written Authority**

**Policy Narrative**

**Written Authority from Cabinet Secretary**

**ANNEX D**

**Timeline**

Activity	Date
Update Submission to Ministers on draft material on written authority	10/05
AO Submission (subject to views) sent to Cabinet Secretary, DFM and FM from DG setting out the rationale and subject to the views of Ministers whether there is a requirement for Written Authority (see graphic below)	12/05
Report from commercial advisers on Capex Assessment and whether it would meet value for money and subsidy control requirements	w/c 15/05
Cabinet Secretary, FM and DFM response to AO Request	15/05
AO Assessment concluded and payment able to be made	15/05
DFM at FPAC Committee	16/05
Parliamentary Bureau Discussion	15 or 16/05
Parliamentary Handling (Statement or Debate)	TBC 16/05 – 18/05
Publication/Sending of Letters	Same time as Parliament
Stakeholder Engagement: <ul style="list-style-type: none"> <li>• Unions (SCAD)</li> <li>• FMPG (SCAD)</li> <li>• Auditor General (DG Economy &amp; CFO)</li> <li>• Arran Ferry Committee (TS)</li> <li>• CMAL (SCAD)</li> <li>• Calmac (TS)</li> </ul>	Post Parliamentary Engagement