

Topical Question Brief

Edward Mountain: To ask the Scottish Government whether it can confirm whether Hull 801 will be delivered by May 2023 and Hull 802 by December 2023 and within the latest cost to complete budget of £123 million.

Minister for Business, Trade, Tourism and Enterprise:

The target date for the completion of Hull 801 (Glen Sannox) remains by end May 2023 and for Hull 802 by end December 2023. The current budget to complete both vessels remains £123m. As set out by the Cabinet Secretary for Finance and the Economy update to Parliament on 23 March 2022.

The Deputy First Minister and Minister for Transport were able to see first hand the progress made on both vessels during their visit to the shipyard on 2 August this year.

We continue to press the shipyard to continue to progress to completion of the vessels in this agreed timeframe and within budget.

Background Note

Due diligence by Ferguson Marine on the costs to complete both vessels has been taking place since early June. The matter remains unresolved and numbers have not yet been signed off by the Board even after 3 months work. No formal request for additional funding has been made to the Scottish Government and estimates still remain provisional. No change to existing budgets has been either assessed or agreed but we do anticipate a formal request from FMPG in the coming weeks and work will need to commence now on assessing the cost estimates.

Progress to delivery of 801 remains tight but on schedule. For hull 802 the most recent (August) monthly update from the FMPG CEO to the DFM and Permanent Secretary set out that Hull 802 will reach practical completion by Dec 2023 but operational readiness and trials will now be “early 2024” to be ready in good time for the start of the 2024 season.” No change to the published date has been agreed and we continue to press for the original timetable to be met.

Cabinet Secretary for Transport will make a Parliamentary Statement on Thursday 8 September on Ferries.

Mr Mountain has visited the yard previously while as Chairman of the RECC Committee.

Latest relevant written PQ on the subject:

S6T-00713

To ask the Scottish Government whether it will provide an update on the anticipated delivery date of the ferries under construction at Ferguson Marine, in light of recent reports that the number of faults in the two vessels has risen.

Jamie Greene

The letter sent from Fergusons to Net Zero, Energy and Transport Committee on 23 March sets out the new timetable and costs for the vessels, following the legacy cabling issue. The new schedule has been developed in partnership with CMAL, who have endorsed the timetable.

801 will be delivered between March and May 2023 and 802 will be delivered between October and December 2023.

The Ferguson Marine CEO writes to the NZET Committee regarding vessels 801 and 802 on a quarterly basis. These regular quarterly updates on progress, were requested by the former Rural Economy and Connectivity Committee in their report on ferry procurement. The next update is due at the end of June.

Ferguson Marine FMQ - 6 September 2022

[Redacted]

TOP LINES

This Government's actions saved Fergusons from closure, rescued more than 300 jobs and ensured the 2 vessels under construction will be completed.

- We stand by our commitment to the shipbuilding communities in Inverclyde and to our island communities that rely on the vessels.
- Ferguson Marine has consistently employed over 350 staff since October 2021.
 - There are currently: around 378 permanent employees (*about 72% living in Inverclyde*); 64 agency workers; and 6 interim staff. There are also over 200 contractors currently working at the yard. (*50% from outwith UK*).
 - The yard currently has 54 apprentices – 15 of them were newly taken on in August this year.
- Fergusons reached another key milestone in April with the fitting of Hull 802's large 100 tonnes bow unit – the largest single unit added to the ferry's steel hull – and both dual fuel vessels are scheduled for delivery next year.

Significant progress has been made at Ferguson Marine and the yard is back to being a serious contender for future vessel contracts.

- This builds on the delivery of three smaller vessels: Hull 803, a 22-metre workboat for the Scottish aquaculture industry; Hull 804, an air-cushioned barge for the oil industry in the Caspian Sea; and Hull 805, a 26-metre specialised fish welfare vessel, also for the Scottish aquaculture industry.

MODEL 801 SHIPS

The model ships referenced in recent press reports form part of the yards contract with CMAL.

- The original contract with CMAL for the vessels requires four model ships as part of the build.

We have welcomed Audit Scotland's report and accepted all recommendations – including committing to a formal review following completion of the vessels.

- The Scottish Government agrees with the Auditor General that **[QUOTE]**: *“The focus now must be on overcoming significant challenges at the shipyard and completing the vessels as quickly as possible.”*
- Audit Scotland has said lessons highlighted in its report are now being applied.
- I fully endorse Audit Scotland's observation, that the new chief executive's appointment **[QUOTE]**: *“provides an opportunity for FMPG and CMAL to work more collaboratively to support vessel progress.”*

OCT 2015 APPROVAL OF CONTRACT AWARD

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There was no ministerial direction, nor was CMAL “effectively instructed to proceed with the purchase from FMEL despite the concerns raised”.

- The CMAL risk paper rightly set out the risks identified by CMAL and noted that the CMAL board wished the Minister to be appraised of these.
- The Auditor General told the Committee on 21 April that Audit Scotland was **[QUOTE]** “*clear in our judgment that there was no formal written authority*”. This was put beyond doubt following publication of the emails of 9 October 2015.
- Ministers provided the assurances that CMAL had sought, and the decision to award the contract to FMEL was taken by the CMAL board.

As Audit Scotland pointed out, mitigations were put in place around the decision to proceed without the full refund guarantee.

- The mitigations included CMAL negotiating three contract amendments with FMEL to minimise the financial risk. Namely:
 - The final payment to FMEL for delivery of the vessels was increased from 15% to 25% of the contract price.
 - CMAL would take ownership of all equipment, machinery, and materials as they arrived at the shipyard.

- FMEL would require all major suppliers to offer a full Builder's Refund Guarantee, with CMAL as the payee.
- **It also included amendments to the standard vessel loan agreements, to provide additional assurances to CMAL.**

It's clear from published documents that Ministers were advised of the risks identified by CMAL, of the mitigations, and came to a decision on that basis.

- It is clear from the previously published documents – notably the letter from Transport Scotland to CMAL, dated 9 October 2015, that **[QUOTE]:**
“The Scottish Ministers have also seen and understood that [CMAL risks] paper and have noted and accepted the various technical and commercial risks identified and assessed by CMAL and have indicated that they are content for CMAL to proceed with the award of the Contracts.”
- **CMAL awarded the contract to, and signed the contract with, FMEL, following ministerial approval.**

The decision to award the contract was quite properly taken by then Transport Minister Derek Mackay.

- The submission of 8 October 2015, published in 2019, noted that the Deputy First Minister had approved the financial implications in his role as Finance Minister prior to the 31 August announcement of FMEL as preferred bidder.

PREVIOUS ABSENCE OF PAPERWORK AROUND OCT 2015 DECISION

It is regrettable that a key point of decision-making was not filed in the way that it should have been – but we have been absolutely transparent about the decision-making process and the information which informed those decisions.

- There is no question that Ministerial decisions should be documented effectively as part of the official record and be suitably accessible.
- The original advice to Ministers in October 2015 was documented by officials, and this was proactively published by the Scottish Government some years ago.
- Since then, albeit with unacceptable delay, the Ministerial response of 9 October 2015 was located and published, supplementing the existing trail of decisions in relation to Fergusons.

SG TRANSPARENCY

Antony Clark told the Public Audit Committee (28 Apr) that Audit Scotland had [QUOTE]: “received very positive and full co-operation from the Scottish Government when conducting this audit”.

- Mr Clark added: *“We’ve been provided with – as the Auditor General said – significant amounts of information on most of the key events that transpired throughout these very complicated and long chain of activities.”*
- Senior Scottish Government and Transport officials have now given evidence during two sessions of the current Public Audit Committee inquiry into Audit Scotland’s report – and we look forward to its conclusions.

PUBLIC INQUIRY CALLS

The Scottish Parliament decided, independently of the Scottish Government, that the Rural Economy and Connectivity Committee (RECC) would conduct an inquiry.

- The RECC has completed a detailed scrutiny of these issues and Ministers have considered and responded to the committee’s findings.
- Ministers remain committed to transparency and we have proactively published large volumes of information on our website and evidence was provided to the inquiry as and when requested.

We have proactively released on the Scottish Government website an abundance of relevant documentation.

- This is 210 documents – amounting to around 1,500 pages of information.
- These documents relate to the key events leading to FMEL being taken into public ownership, and illustrate our interventions with the business and the progress towards delivery of vessels Glen Sannox (801) and 802.
- The documents cover events from Ministers’ approval for CMAL to award the contracts to FMEL in August and October 2015 through to the nationalisation of the shipyard in 2019, and progress reports into 2022.

OBSOLESCENCE

MV Glen Sannox and Hull 802 will be vital additions to Scotland’s ferry network and the dual fuel technology ensures they will be greener, quieter and more reliable than previous vessels.

- While LNG is not a long-term alternative to conventional fuels for ferries, it is a proven technology that offers around 20% less carbon emissions. LNG also has significant local air quality benefits.
- CMAL is currently finalising the detailed design of the LNG harbour infrastructure assets, including LNG Tanks which will service the needs of Glen Sannox and Hull 802. Completion timelines will be provided following this work.
- As with fuel types and technologies for all transport modes, we will continue to work with ferry operators and others to review and consider the most appropriate and sustainable combinations as our future vessel and port projects progress.

ARDROSSAN PORT UPGRADES

We remain committed to delivering sustainable ferry services to our island communities, supporting social and economic growth across Scotland.

- Ultimately the upgrades to Ardrossan and the Skye Triangle ports (Uig-Tarbert-Lochmaddy) will help bring greater resilience and reliability to the routes and will support the deployment of the two new vessels and future vessels in the longer term.
- The timing of the move to Troon is still to be finalised and would be triggered by the introduction of the MV Glen Sannox or the start of the works at Ardrossan which would last until the port upgrade is completed.

2014/15 PROCUREMENT PROCESS

CMAL's procurement for vessels 801 and 802 was undertaken thoroughly, in good faith and following appropriate due diligence on all 7 bids from 6 yards.

- Audit Scotland highlighted the 2018 Scottish Government procurement directorate's independent, high-level review of CMAL's procurement procedure which "*found no material issues with the procurement*".
- Neither the Rural Economy & Connectivity Committee Inquiry, nor Audit Scotland, found evidence of political interference in CMAL's procurement.

2014/15 TENDER DOCUMENTS AND NEED FOR FULL REFUND GUARANTEE

As Audit Scotland set out, it was open to bidders in their response to the Invitation to Tender to make comments or amendments to the draft contract for consideration by CMAL. FMEL failed to do so.

- FMEL was fully aware of CMAL's requirement for a full Builder's Refund Guarantee – as set out in the Pre-Qualification Questionnaire (PQQ) (issued 15 Oct 2014) and then in the Invitation to Tender that CMAL (issued 10 Dec 2014).
- It was for CMAL as procuring authority to assess each prospective bidder's PQQ and to decide which companies to invite to Tender.
- As Audit Scotland reports, FMEL failed to provide comments or amendments on the draft contract terms in the bid it submitted to CMAL at the end of March 2015.
- This was despite CMAL's Instructions to Tenderers clearly setting out the means – and timescale – for bidders to propose to **CMAL** any amendments to the contract.

AUGUST 2015 DECISION ON PREFERRED BIDDER STATUS

The Scottish Government was not a party to the procurement process and not privy to all of the detailed discussions between CMAL and FMEL.

- The 'preferred bidder' was announced in August 2015, in line with normal procurement rules and practices.
- CMAL, as procuring authority, identified Fergusons as the preferred bidder.
- As the published record shows, Ministerial approval to allow the procurement process to proceed was given by the then Cabinet Secretary for Infrastructure, Investment & Cities, and Keith Brown.
- Although CMAL has said that Board members were not aware that Ministerial approval was being sought, the published advice from TS to Ministers of 20 August is clearly based on information from CMAL executives.

Ministers only became aware of the issue over the Guarantee after they had approved the appointment of FMEL as preferred bidder on 21 August 2015.

- Jim McColl told the BBC on 3 May this year that the alternative proposal from FMEL, not to provide a guarantee, came on 26 August 2015. That was plainly after the initial Ministerial approval had been given, on 21 August 2015, to appoint FMEL as the preferred bidder.
- CMAL's written evidence note the expectation that FMEL's parent company, Clyde Blowers Capital (CBC) would provide the appropriate security required by the ITT. It was made clear to CMAL

on 21 August that this would not be the case. This was after the initial Ministerial approval had been sought, and was not communicated to Transport Scotland officials until 25 August.

- Ministers were first made aware that there was a potential issue with the provision of a full BRG by FMEL through written briefing dated 28 August 2015 which was prepared for the announcement of preferred bidder status which took place on 31 August.

That FMEL alternative proposal subsequently became the subject of the negotiations between FMEL and CMAL. That was summarised in Transport Scotland's published advice to Ministers, dated 8 October 2015.

Among the many hours of evidence given and documentation published since the 2020 Committee inquiry, we have seen nothing to substantiate the claim that FMEL had informed CMAL during the procurement process that it would be unable to provide a full Builder's Refund Guarantee.

Audit Scotland's Gill Miller told the Public Audit Committee (on 21 Apr)

[QUOTE]: "As the Auditor General has already said, the requirement for the full BRG was stated in the contract very clearly."

- **[QUOTE continues]: "And FMEL did not make any comments on that contract. And therefore when CMAL was evaluating its bid, there was no indication that it was not going to provide the 100% refund guarantee at that stage."**

NOVEMBER 2017 LAUNCH OF GLEN SANNOX (801)

Agreeing the milestone, that a vessel is ready to launch, is a matter for contract parties, in this case FMEL and CMAL.

- At no point ahead of the proposed launch of the vessel did CMAL share any concerns regarding a need to delay the launch with Ministers.
- We were assured, in November 2017, by the yard that a key milestone for this project had been reached and that the first vessel would be delivered the following year. It was right that this was marked.
- That decision was based on the information that was made available to me and to government at the time. But, as is now clear, this was far from the case.

- If I had known that delivery was in fact some years away, of course I wouldn't have gone to launch the vessel.

2017 CHANGES TO PAYMENT PROFILES

All parties – Minsters, TS, FMEL and CMAL – were working together to find ways forward with the delivery of the vessels

- This included changes to the contractual payment profiles to support continued work on the vessels.
- These changes were developed in discussion with CMAL executives prior to Ministerial approval. The minutes of one of those meetings and the subsequent advice to Ministers was published in 2019.
- Documentation on this has already been published.
- Final clearance was for the contracting parties – CMAL and FMEL – and, in the case of CMAL was supported by a “letter of comfort” provided by Ministers at the Board's request.

2017-2019 COST DISPUTES AND POTENTIAL CLAIMS

Claims by FMEL that the faults in this project were as a result of changes made by CMAL or the lack of initial specification are wrong.

- There were clear and established mechanisms in the contract to enable changes to be mutually agreed and costed. These were not extensive changes as has been claimed; they resulted in about £1.5m extra costs.

The Rural Economy and Connectivity Committee, chaired by Edward Mountain, found evidence that Fergusons did not run the contract properly.

- When considering how FMEL, under the ownership of Jim McColl had scheduled the build of the vessels the committee concluded that **[QUOTE]:** *there is strong evidence that the contractor deliberately proceeded to construct specific sections of the vessel either out of sequence or not according to the proper specification purely as a means of triggering milestone payments on the contract.*

(para 160 REC Committee report into Fergusons)

Given the scale of FMEL's initial £17.5m and further potential claims, the Scottish Government encouraged FMEL to pursue them through the courts but, as Audit Scotland makes clear, FMEL chose not to do so. And of course CMAL had refuted the claim in its entirety.

- The contract also provided for mediation. No agreement was reached between CMAL and FMEL on the terms of the mediation. The preferred mediator was not available within the required timescale.
- It is impossible to speculate over the potential outcome of mediation, had that taken place, though the failure of the parties to agree terms of reference did not auger well.

Audit Scotland reported that the independent view on FMEL's claim, commissioned by the Scottish Government, concluded in June 2019 that there was no legal basis for CMAL to pay more than the contract's £97m fixed price.

- It was not for Ministers to direct either party – though we did encourage CMAL and FMEL to work proactively to resolve the dispute
- The options for dispute resolution were set out in the contract, including for FMEL to take the claim to court.

CLAIM THAT CMAL BOARD THREATENED TO QUIT OVER SG INTERVENTION

I'm aware of resurfaced claims – initially made to the 2020 Committee inquiry – that the CMAL Board threatened to resign over Ministers' intervention in the dispute resolution process.

On 11 March 2020, CMAL Chief Executive Kevin Hobbs told the REC Committee inquiry [QUOTE]: "There was never any discussion about mass resignations."

- Mr Hobbs said: [QUOTE]: *"There was no such discussion because, as a board, we were very clear that we cannot be given a direction by the Scottish Government to do things that we do not want to do – and which, by the way, are illegal. We are the custodians of public money."*
- The CMAL Board was clearly aware, throughout the process, of the need to act independently – and to be mindful of their own fiduciary duties at all times.

2017 AND 2018 LOANS TO FMEL

The Scottish Government made two commercial loans available to FMEL for an aggregate amount of £45m.

- The first of these was an unsecured loan of £15m to FMEL in September 2017, to aid cash flow for the vessels under construction and allow the business to diversify.

- A second loan of £30m was agreed in June 2018. The purpose of the loan was to fund FMEL to assist with cash flow and assist diversification of the business.
- The second loan secured all funds owed to Scottish Ministers and created the potential for the loans to be converted to equity in FMEL.

NO STATE AID INVOLVEMENT IN YARD LOANS, NOR VESSELS CONTRACTS

There was no state aid as the loan arrangements were on fully commercial terms. This also meant there was no requirement to notify the European Commission.

- The interest rates charged on the loans were reasonable commercial rates, and ultimately both loans were secured against the assets of the business.
- The loans which Ferguson received from the Scottish Government followed the rules for decision-making by Ministers, when considering investing public funds.
- Audit Scotland was notified of the loan facilities as the Government's auditors and the expenditure was reported in the SG accounts, published 27 September 2018.

There was also no State aid involvement in the shipbuilding contracts that CMAL awarded to FMEL for the 2 ferries.

- They were awarded following a competitive tender and funded by a commercial loan from the Scottish Government to CMAL.

2019 MOVE TO NATIONALISATION – SG AWARENESS OF CHALLENGES

I agree with STUC's Roz Foyer that [QUOTE]: "It is clear that the ongoing problems at the yard started with private sector failure and the Scottish Government was 100% correct to intervene.

- *"We must not let the current issues distract from the need to build capacity and future orders. The loyal and skilled workforce at Ferguson Marine must be the bedrock of ferry building in Scotland and they deserve the opportunity to have their part in that future."*
(STUC release, 23 Mar 2022)

The Scottish Government's priorities throughout have been the completion of the two CMAL ferries and securing a future for the yard and its workforce.

- Public ownership was the only option open to us to deliver our objectives of completion of the two ferries and securing a future for the yard and its workforce.
- It was the right thing for the Scottish Government to step in when we did.

**JULY 2019 OPTIONS AND DECISION TO NATIONALISE YARD
In 2019 FMEL went into administration, with estimated debts of over £75m.**

- In July 2019, two feasible options were identified as being available to Ministers with the potential to deliver the identified objectives of delivery of the vessels, securing the jobs at the yard, and securing a future for the yard and commercial shipbuilding on the lower Clyde.
- An initial shortlisted third option of retendering was rejected due to cost and uncertainty.
- The first option the build out of the vessels with the business in administration. This was rejected as this created significant risks.
- With the yard in administration, Scottish Government would be required to negotiate with the administrator to access the yard, creating significant additional cost pressures and uncertainty for the workforce while access was negotiated.

In the absence of a workable commercial solution, the administrators of Fergusons concluded the proposal of Ministers to bring the yard into public ownership was in the best interests of the creditors – who ultimately would have received nothing had this action not been taken.

- The alternative for the Scottish Government was to walk away, which would have resulted in hundreds of job losses, the yard's closure and our vital ferries remaining unfinished. Ministers were not willing to walk away.

The scale and nature of the business turnaround needed, and the failings in relation to delivery of the vessels, were of greater significance and complexity than could have been anticipated, given the due diligence that could be done.

- This is not unusual in the acquisition of a distressed asset.
- In this context, there is a constrained time within which interested parties must undertake their due diligence whilst also preserving the value of the business.

TURNAROUND DIRECTOR, APPOINTED AUG 2019

The Turnaround Director was appointed in August 2019 following a competitive and robust recruitment exercise – and his contract was managed by Fergusons’ Board of Directors from August 2020.

- A benchmarking exercise was conducted as part of the recruitment process to identify market rates. The Turnaround Director’s agreed fee was well within the benchmark, and consistent with market rates.
- The fee rates reflect the highly specialised nature of a role that requires senior level experience and a solid track record of stabilising and transforming businesses in difficult situations.
- It is not uncommon to see significant change in a business as part of a turnaround process. Charged with turning an ailing business around, Mr Hair had to make changes; clearly just running as before would not deliver the vessels.
- Mr Hair’s contract was renewed in February 2020 with a reduction in the day rate and the addition of a retention arrangement, under which a percentage of the fee is accrued and withheld for a period of time.
- His role was always temporary and, with the shipyard on a more solid footing, the arrival of the new CEO in February 2022 was the right time to welcome a permanent and longer-term leader.

COVID IMPACT POST-NATIONALISATION

Fergusons has been in a period of turnaround since late 2019. The past two years have been challenging, exacerbated by the global COVID-19 pandemic, and a complex range of issues have been addressed in that time.

- As the Audit Scotland report notes, **[QUOTE]**: *“Around four months after the shipyard was nationalised, the Covid-19 pandemic caused significant disruption to the turnaround of the business and to vessel progress.”*

CONTRACT DECISIONS INCL END OF INVOLVEMENT IN FRIGATE BID

FMEL entered Administration – with estimated debts of over £75m – around the time Babcock was appointing the preferred bidder for the frigate contract.

- This forced Babcock to change their build strategy and pursue another avenue for the work.

FEB 2022 APPOINTMENT OF PERMANENT CHIEF EXECUTIVE

The new permanent Chief Executive has been in post since February and is already making a difference.

- With a career spanning four decades, David Tydeman brings a wealth of industry and senior leadership experience covering shipbuilding, offshore projects, capital infrastructure, and mergers, acquisitions and turnaround operations.
- He has created a more collaborative culture working more closely with CMAL who have often had differences of opinion about progress at the Yard – and supporting closer engagement with the workforce.
- I understand union representatives are heartened by experience of the new Chief Executive, his understanding of the business, and his vision for the future.

SG'S EXPECTATIONS OF, AND ON-GOING ENGAGEMENT WITH FERGUSONS

The Economy Secretary has been clear on what she expects from Ferguson Marine in terms of delivering 801 and 802, as well as turning the business around to be competitive.

- Until those vessels are serving the communities for which they were built, we will not let up in our drive and determination to get them finished and delivered.
- As I have said in this chamber already, the cost over-runs and the delay in construction of the ferries are unacceptable.
- Ministers meet Fergusons' senior management on a monthly basis, and the Chair every 6 weeks – to drive improvement and progress.

LATEST COSTS & SCHEDULES

On 23 March the Cabinet Secretary provided the Parliament with a breakdown of the costs associated with the completion of vessels 801 and 802.

- The figure of £240m referenced by Audit Scotland includes £45m of loans provided to FMEL prior to its administration – to support the business with working capital and business diversification.
 - These are not direct costs associated with the project to deliver the vessels.
- As the Cabinet Secretary confirmed in the Chamber on 23 March 2022, the cost to complete the build of the ferries from the point of public ownership has risen from the £110.3m-to-£114.3m range (previously communicated to Parliament in December 2019) to a range of £119m-to-£123m.
- This brings the total direct project cost of delivering the vessels up to an estimated range of £202.3m-to-£206.3m, once contractual

payments of £83.3m, made by CMAL to FMEL, prior to public ownership are taken into account.

Fergusons' CEO and Board of Directors have reiterated their confidence in the revised schedule sent to Net Zero, Energy & Transport Committee in March.

- The schedule indicates a delivery range for 801 of March-May 2023, and for 802 of October-December 2023. The revised schedule was developed with support from CMAL who also provided assurance that the revised dates are achievable.
- *CMAL's CEO, Kevin Hobbs said [QUOTE]: "There is not much now which is standing in the way of both of them being delivered. There are a lot of detractors out there saying rather spurious things about them, but we've always had a view that both would be finished."*
(Scotsman, 11 June)

SG officials are working closely with Fergusons to review assumptions behind the revised cost and schedule and how spend aligns to the vessels' delivery.

- Scottish Government officials are working closely with the management team at Ferguson Marine on their financial assurance programme to review the cost of vessels 801 and 802. This work will conclude in the coming weeks.
- A vital element that underpins the revised cost and schedule that remains in development is a profile of costs between now and delivery of 801/802 against key programme milestones.
- Fergusons is working to provide further assurance to Ministers and to Parliament on the revised schedule and cost. SG officials are working closely with Ferguson Marine to test and review the assumptions behind the numbers.
- The next update by FMPG to the NZET Committee is due at the end of September.

CMAL OWNER OBSERVATION REPORTS (OORs)

The 'Owner Observation Reports' (OORs), that featured in recent press reports were published proactively by the Scottish Government.

- Fergusons has raised the profile of CMAL's 'Owners Observation Reports' since the secondment of a senior CMAL representative into the yard's senior team.

- FMPG and CMAL are now jointly treating them as a ‘snagging and defect list’, which is typical of any large construction or shipbuilding project.
- This work is being led by Fergusons’ compliance director, who until recently was also employed by Lloyds Register of Shipping – the Classification society surveying both Glen Sannox and 802.
- The CEO, a naval architect and classification surveyor by background, is also personally engaged in this, particularly on issues around safety and stability.

LEGACY CABLES

The cabling was installed by FMEL contractors in late 2018 and early 2019, prior to the yard coming into public ownership.

- During planned electrical works for 801, the yard discovered that a number of cables were unable to reach components they were intended to carry power to.
- Some cables are too short and others are not routed in accordance with the design information the yard hold.
- There was provision in the delivery programme for the replacement of cables affected by significant equipment moves.
- The legacy cables issue identified by the yard in December 2021 relates to cables which were not already planned for replacement.

The cabling was installed by a reputable contractor; the yard had no reason to suspect any problems with the cabling until they began connecting equipment.

- FMEL did not have the in-house expertise to design and install the electrical and control systems for 801 and 802 and subcontracted the entire scope of work.
- The contractor selected was a highly regarded supplier of marine systems. They designed the overall electrical, electronic and control systems for the ships and supplied the relevant equipment.
- The installation of the cables was further subcontracted to a company specialising in this area, who installed the legacy cables.

CURRENT CABLING INSTALLATION

- The yard does not distinguish between new cabling, and reinstatement cabling, they are focussing on the total amount of cable installed each week.
- Unfortunately, the current rate of installation is behind schedule. However, the yards senior management team are monitoring

progress, and are in regular discussion with their cabling contractor to rectify this issue as swiftly as possible.

RECENT UPDATES TO MINISTERS, PUBLISHED ON SG WEBSITE
Driving up productivity day-to-day is rightly an operational matter for the yard. The Chief Executive and Chair are working to improve this and, as part of the programme reset, the yard has set targets for more efficient work pack planning – so that use of labour and materials is better focused.

- An example of this is the creation of the Permit to work office on ship, so time spent walking on/off ship is minimised.
- A number of issues relating to design have been resolved in recent months, as part of ongoing work to get the vessels out in to service as soon as possible.
- CMAL is active in finalising design tweaks and variations necessary to complete the vessels.

These vessels will not enter service without rigorous assessment that they meet the required specification by CMAL who maintain a presence in the yard as advisors to the Scottish Government.

- Communities can take confidence that these vessels will perform in service and improve the network.
- The vessels will not be handed over for delivery unless they are satisfactory.
- In addition, the vessel will not be able to enter service until it has received all clearances required by the Maritime and Coastguard Agency and Class society approval from Lloyds Register.

CMAL recently made clear that it is [QUOTE]: “confident that outstanding issues can and will be rectified, and the vessels completed to enter service”.

- *CMAL also said that [QUOTE]: “The appointment of a permanent chief executive at the shipyard has been a welcome development, and we have further strengthened collaboration between our senior teams via the secondment of our senior vessels project director, which will provide added experience and improve decision-making. We will continue to work in partnership and remain committed to the completion of the two ferries.” (Herald, 15 May)*

CURRENT FIRST MARINE INTERNATIONAL (FMI) REPORT

- As part of ongoing work to support the yard to secure future opportunities, and in line with recommendations in the Audit

Scotland report, the Scottish Government has procured a productivity study report.

- The purpose is to evaluate what possible improvements can be made for the yard to be more efficient, competitive and to win contracts on merit. This report will inform future decisions about further investment in the yard.
- This is in line with what any responsible business operator would do.
- This independent assessment is being undertaken by First Marine International, a specialist provider of shipyard consultancy services.
- Any decisions around potential investment at the yard will of course be open to Parliamentary scrutiny, need to demonstrate value for money and be subject to subsidy control rules

In regard to the previous FMI benchmarking report, FMPG were unable to provide the specific information requested in this instance to protect the commercial interests of the company and the yard.

- The Scottish Government it's committed to Ferguson Marine, its workforce and the vessels under construction.

Fergusons is actively pursuing a number of other vessel opportunities.

- Operational decisions on which vessel opportunities to pursue are for Ferguson's management and Board, as is the strategic management of resources.
- Ministers will do all we can as Ferguson Marine shareholder to help the yard secure a sustainable future.
- If the yard is to succeed in the future, it needs to be efficient, competitive and to win contracts on merit.
- For this reason, we are commissioning a piece of work to evaluate possible improvements to the yard that might help secure the long term future we want for Fergusons.
- This work is in line with Audit Scotland's recommendations, and is something that any responsible steward of a business would pursue.

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