

OFFICIAL SENSITIVE - Vessel replacement - 2 new 100m ferries - submission - 20 August 2015 Approval to award contract - 21 August 2015

[Redacted] on behalf of; Cabinet Secretary for Infrastructure, Investment and Cities  
[Redacted]

[Redacted] Cabinet Secretary for Infrastructure, Investment and Cities [Redacted]

Minister for Transport and Islands [Redacted] DG Enterprise, Environment & Innovation [Redacted] PS/Transport Scotland [Redacted] [Redacted] [Redacted] Middleton DF (David) [Redacted] Transport Scotland Directors [Redacted] Laidlaw GM (Graham) [Redacted] [Redacted]

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[Redacted]

[Redacted] Cabinet Secretariat inbox

[Redacted]

Many thanks for your submission which Mr Brown has noted. Cab Sec is content to approve the award of the two shipbuilding contracts by CMAL to Ferguson Marine Engineering Ltd.

**Mr Brown has also asked for a SCANCE note on this for Monday's Cabinet meeting in Oban.**

Thanks

[Redacted]

[Redacted] | Deputy Private Secretary | Office of Keith Brown MSP, Cabinet Secretary for Infrastructure, Investment and Cities | Scottish Government, St Andrew's House, Regent Road, Edinburgh, EH1 3DG [Redacted] [Redacted]  
Click [here](#) to find out more about supporting Ministers.

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**From:** [Redacted]

**Sent:** 20 August 2015 18:38

**To:** Cabinet Secretary for Infrastructure, Investment and Cities

**Cc:** Minister for Transport and Islands; DG Enterprise, Environment & Innovation; PS/Transport Scotland; [Redacted] Transport Scotland Directors; Laidlaw GM (Graham) [Redacted]

[Redacted] [Redacted] [Redacted] Press Transport Scotland; [Redacted] [Redacted]

**Subject:** OFFICIAL SENSITIVE - Vessel replacement - 2 new 100m ferries - submission - 20 August 2015

[Redacted]

In Mr Mackay's absence, we would be grateful for Mr Brown's urgent consideration of our recommendation for the award by CMAL of shipbuilding contracts for 2 new ferries. We were able to give Mr Mackay a verbal briefing before he went on leave so he is aware of (and supportive of) this outcome.

Please could copy recipients note that this remains a "live" procurement until 31 August and therefore the identity of the winning bidder is commercially sensitive, though we are aware of media speculation. For that reason I would be grateful if this submission is not circulated any further than is strictly necessary.

I am on leave now until 31 August but [Redacted] is available Monday to Wednesday next week. However, as CMAL are responsible for this procurement, Mr Brown may find it equally if not more helpful to speak directly to their Chief Exec Tom Docherty and we would be happy to arrange that.

Thanks

[Redacted]

Ferguson Marine Engineering - Ferries

Preferred Bidder Announcement 28<sup>th</sup> August 2015

First Minister [Redacted] Cabinet Secretary for Infrastructure, Investment and Cities  
[Redacted] Deputy First Minister and Cabinet Secretary for Finance, Constitution and  
Economy [Redacted] Minister for Transport and Islands [Redacted]

DG Enterprise, Environment & Innovation [Redacted] PS/Transport Scotland  
[Redacted] Middleton DF (David) <David.Middleton@transportscotland.gsi.gov.uk>;  
Cabinet Secretariat inbox [Redacted] Transport Scotland Directors [Redacted]  
[Redacted] [Redacted] [Redacted] [Redacted] [Redacted] [Redacted] [Redacted]

<Press\_Transport\_Scotland@scotland.gsi.gov.uk>;

PS/FM

Please find a briefing pack attached for the announcement to be made at Fergusons on Monday. As you will be aware the logistics have been pulled together at relatively short notice so there may be some final revisions on Monday morning. Transport Scotland, Comms and V&E colleagues will be on site from around 8.30 on Monday to confirm arrangements and will advise of any last minute changes that may occur.

The briefing pack does not contain a formal speaking note (as I believe had been advised earlier) but the lines to take are an adapted version of the press release so could be used if required. I have also attached a copy of the Q&A prepared by CMAL who will be on hand to answer any specific or technical questions if required – although it is not anticipated that this will be necessary. I would however draw the First Ministers attention to the Sensitivities/Next Steps section in Annex A for her awareness (it stresses that there is considerable negotiation to be undertaken over the next few weeks before the formal contract award can be considered).

Hopefully everything is covered in the brief although I will be available on BB over the weekend if anything urgent comes up (although you may have to leave a message as I am likely to be out of signal for short periods of time).

Have a good weekend.

Regards

[Redacted]

[Redacted]

**Head of Ports and Harbours**

2F North, Victoria Quay

EDINBURGH EH6 6 QQ Tel – [Redacted] Mob – [Redacted]

**MINISTERIAL ENGAGEMENT BRIEFING: FIRST MINISTER - NICOLA STURGEON MSP 28<sup>th</sup> August 2015**

Copied to:

<i>Engagement Title</i>	Preferred Bidder announcement for two new 100m ferries
<i>Timing</i>	<b>Immediate</b>
<i>Organisation/Venue and full address including postcode</i>	Ferguson Marine Engineering Ltd (FMEL), Newark Works, Port Glasgow, Scotland, PA14 5NG
<i>Date and Time of Engagement</i>	Date(s): Monday 31 August 2015 Time(s): 10:00:1100
<i>Background/Purpose</i>	<b>Purpose/Invitation History:</b>  CMAL has appointed Ferguson Marine Engineering Ltd (FMEL), Port Glasgow as the Preferred Bidder for the construction of 2 new major ferries for the Clyde and Hebrides Ferry Services network. The contract value is £97m plus £9m CMAL project management costs.
<i>Relevance to Core Script</i>	Investment in Transport Infrastructure to support sustainable economic growth.
<i>Greeting Party and specific meeting point on arrival (if event is at a non SG Building)</i>	Drop-off at Ferguson main entrance where FM will be met and officials will be waiting. She will then be escorted upstairs to meet the Greeting Party:  <ul style="list-style-type: none"> <li>• Jim McColl, Owner of Ferguson Marine Engineering Ltd (FMEL)</li> <li>• Keith Mitchell (FMEL) – Board Member</li> <li>• Liam Campbell (Tel 01475 742300) General Manager/ Chief Executive of the Port Glasgow yard.</li> <li>• Tom Docherty, CMAL Chief Executive</li> <li>• Andrew Duncan, Director of Vessels</li> </ul>
<i>Specific entrance for Ministerial Car/parking arrangements</i>	<input checked="" type="checkbox"/> None – pull up at the main entrance, carparking available
<i>Venue contact Number</i>	01475 742300.
<i>Special Dress Requirements</i>	Business suit.
<i>Event Programme</i> <i>(for detail see <b>Annex C</b>)</i>	10.00 - <b>Ms Sturgeon arrives</b> and is met at the entrance and escorted upstairs to the offices to meet the Greeting Party (CMAL and FMEL)

*Summary Page*

***Background of Procurement process***

*[Redacted] submission dated 20 August 2015*

*SCANCE note Exempt*

*TS Draft – Final has been released already see link*

*CMAL Draft – final version has been released see link*

*Attendees*

*Scottish shipbuilding and Ferguson Marine Engineering Ltd*

*Directions including map(s) Additional Information*

*Official Support*

10:20 – Short Tour and press announcement in the yard as well as meeting staff and apprentices. Another CMAL owned vessel the MV Catriona is currently being built so should provide a useful backdrop for photo opportunities. Media opportunities. Quotes from Ms Sturgeon.

11:00 – Depart

**Annex: A**

**Annex: B**

**Annex: C**

[Ferry Deal to create new jobs](#)

[CMAL - Announces Preferred bidder for two large ferries contract](#)

**Annex: F**

**Annex: G**

**Annex: H** Location map of FMEL

**Names:**

[Redacted] (TS Comms)  
Office [Redacted]  
Mobile [Redacted]

[Redacted]  
Communications: First Minister  
Mobile [Redacted]

[Redacted]  
Mobile [Redacted]

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constitution Interest	General Awareness
Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy Cabinet Secretary for Infrastructure, Investment and Cities Minister for Transport and Islands			X		
			X		
			X		

DG Enterprise, Environment and Innovation  
 PS/Transport Scotland  
 David Middleton, CE, Transport Scotland  
 Cabinet Secretariat  
 TS Directors  
 [Redacted]  
 [Redacted]  
 [Redacted]  
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 Press Transport Scotland  
 [Redacted]  
 [Redacted]  
 [Redacted]  
 [Redacted]  
 [Redacted]  
 Alexander Anderson, Special Adviser  
 Stuart Nicolson, Special Adviser  
 Campbell Gunn, Special Advisor

**SUMMARY PAGE**

**Purpose of event:**

- CMAL has appointed Ferguson Marine Engineering Ltd (FMEL), Port Glasgow as the **preferred bidder** for the construction of 2 new major ferries for the Clyde and Hebrides network. The contract value is £197m plus approximately £9m CMAL project management costs.
- This investment is in line with the vessel replacement proposals set out in the Scottish Government's 2012 Ferries Plan.
- To reinforce the Scottish Government's commitments to:
  - Ferry services in Scotland
  - Shipbuilding on the Clyde and jobs in Inverclyde
  - Green technology

**Sensitivities/Next Steps : (Not all in public domain)**

- Although this is a major milestone in the procurement process **there is still considerable work and negotiation to be undertaken until it reaches a stage where CMAL can take a decision to award the formal contract**. This includes complexities around the level of guarantees that FMEL can provide (although there has been some movement on this element – with some distance still to go).
- The profile of payments for the vessels has still to be agreed with the yard and is currently out of alignment with available Transport Scotland budget assumptions across the 3 year period. CMAL is working to resolve this. TS is in discussion with SG finance on the issue.
- The contract is currently at the 10 day standstill period. The earliest the contract can be awarded is after this timeframe but may take longer.
- The other 5 yards have all asked for feedback on why they have not proceeded. There is a continual risk of legal challenge given the scale of the award and the preferred bidder status being issued to a 'local' yard.

**Key Issues:**

- This is a key milestone in the procurement of a shipbuilding contract awarded to Ferguson Marine Engineering Ltd (FMEL) for the construction of two new ferries following a competitive tendering exercise. The contract value is £97m (with additional CMAL management costs of around £9m);
- The vessels have been designed as 'dual-fuel' so they can operate on LNG and marine diesel. LNG is significantly cleaner and is being adopted increasingly by ferry operators in northern Europe largely in response to tighter sulphur regulations which will apply on the west coast from 2020.
- It is anticipated that the first vessel will be delivered in January 2018 and the second in March 2018. These ships are initially earmarked for the Ardrossan-Brodick route and the Uig Triangle although the final decision on vessel

deployment rests with the operator and will be informed by further analysis of demand on all major routes

- The project will boost commercial shipbuilding on the Clyde.

**Lines to Take:**

- This is an excellent result for Ferguson Marine Engineering Limited and I am delighted to name them as preferred tenderer for the contract to build two new ferries, the largest commercial vessels to be built on the Clyde since 2001.
- “This contract will see the 150-strong workforce retained and more staff taken on at the shipyard, underlining our commitment to creating the vital jobs needed to boost local economies and help stimulate growth across Scotland.
- This is an illustration of how the Scottish Government is making good on its commitment to create the vital jobs needed to boost local economies and to help stimulate sustainable growth across Scotland.
- “We are committed to supporting ferry users around Scotland by providing safe and reliable services, and this is the latest step to ensuring we have a fleet that continues to deliver for the communities that depend on it
- The Scottish Government is also, through CMAL, committed to leading the way in innovative ferry design and building for the future and we look forward to seeing the first vessel will be delivered in January 2018 and the second in March 2018.
- Should the contract be formally awarded it will be utilising Scotland’s world renowned engineering skills made famous on the banks of the Clyde. Safeguard existing jobs and secure new jobs, including apprenticeships.



**MINISTERIAL ENGAGEMENT BRIEFING: FIRST MINISTER - NICOLA STURGEON MSP 28<sup>th</sup> August 2015**

**ANNEX B**

From: [Redacted]

Transport Scotland Ferries Unit  
20 August 2015

Cabinet Secretary for Infrastructure Investment and Cities

**VESSEL REPLACEMENT – PROCUREMENT OF 2 NEW MAJOR VESSELS**

**Purpose**

1. In the absence of the Minister for Transport and Islands on leave, your approval is sought for CMAL to award shipbuilding contracts of a total cost of £110m for 2 new major ferries for the CHFS network to Ferguson Marine Engineering Ltd (FMEL).

**Priority**

2. **Urgent.** Given procurement deadlines, Caledonian Maritime Assets Ltd (CMAL) are required to issue a notification of contract award letter to FMEL, and 'Alcatel' letters to the 5 unsuccessful bidders no than Monday 31 August – after that date the tenders will no longer be valid: the original 3 month validity period has already been extended for 2 months with the agreement of all the bidders. Subject to consideration by the CMAL Board on Tuesday 25 August and feedback from CalMac Ferries Ltd, Ministerial approval in principle is sought by **Thursday 27 August**.

**Background**

3. The Vessel Replacement & Deployment Plan 2014 (VRDP), approved by Mr Mackay on 14 July (and to be published shortly) set out the case for the procurement of 2 new major vessels for the Clyde & Hebrides Ferry Service (CHFS) network. On the basis of the initial analytical work behind the VRDP, and the indicative vessel replacement proposals set out in the 2012 Ferries Plan, you announced the start of the procurement process for these 2 new vessels by CMAL on 15 October 2014.

4. Following consideration of Pre-Qualification Questionnaire responses, CMAL issued Invitations to Tender to the following shipyards on 10 December 2014:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- Redacted]

## Tender evaluation

5. 7 tenders from these 6 shipyards were submitted by the deadline of 31 March 2015. After detailed consideration of the quality and costs submissions by the CMAL vessels team, with technical input from CalMac Ferries Ltd, the CMAL executive team are recommending the award of the contracts to FMEL.

6. It was made clear to tenderers that the quality/price ratio for assessment of proposals was 50:50. FMEL was the highest quality bid received but also the highest price. Taken together, the FMEL tender achieved the highest overall evaluation score.

7. Although CMAL are responsible for vessel procurement, under the tripartite arrangements in place CalMac have been consulted extensively at technical level to achieve their endorsement of the detailed specification and designs which will form part of the shipbuilding contract. Intensive exchanges between CMAL and CalMac on the one hand and CMAL and FMEL on the other have resolved the vast majority of the issues identified by CalMac. CalMac are currently carrying out a final review of documentation, due to complete on 25 August.

8. On the basis of discussions at the project steering group today, we anticipate that CalMac will not be in a position to fully endorse the shipbuilding documentation by the required deadline. However, under agreed procedures this does not prevent CMAL from awarding the contract and further efforts will be undertaken during the detailed design of the vessel by FMEL to address any outstanding points. These issues largely concern the access of the vessels to the various ports that they may serve during their working lives and the potential requirement for modifications at some ports. However, on the basis of the information available to us at this point, the risk of major infrastructure requirements to accommodate these vessels – such as those at Stornoway and Ullapool to accommodate the MV Loch Seaforth – is considered to be low. That said, the CHFS port infrastructure as a whole, which was largely designed for a very different size and type of vessel – requires ongoing investment in order to continue to support safe and reliable ferry services which can meet the growing demand for travel to and from the islands.

9. The vessels have been designed as 'dual-fuel' so they can operate on LNG and marine diesel. LNG is significantly cleaner and is being adopted increasingly by ferry operators in northern Europe largely in response to tighter sulphur regulations which will apply on the west coast from 2020. LNG brings some logistics challenges, which CalMac are looking into, and may require some additional fuelling infrastructure. The benefit of 'dual-fuel' is that the vessels can be run on conventional fuel if there is any interruption in LNG supply. When the initial business case for this project was drawn up, the forecast price of LNG compared to marine diesel made a compelling case for its adoption. Since then, the fall in oil prices has, at this point in time, removed the price benefit of LNG; however, historically gas prices follow oil prices and over the long-term we would expect a financial as well as an environmental benefit from using gas.

## **Delivery timetable**

10. Under the draft contracts, the first vessel will be delivered in January 2018 and the second in March 2018, subject to final clarification and permissible delays. As previously announced, these ships are earmarked for Ardrossan-Brodick and the Uig Triangle although the final decision on vessel deployment rests with the operator and will be informed by further analysis of demand on all major routes.

## **Financial issues**

11. The contract value is £101m plus £9m CMAL project management costs which equates to £110m in total. This is higher than the £80m included in the VRDP – which will be updated prior to publication – and the revised estimate of £90m included in CMAL's 3-year Corporate Plan, which has already been published.

12. This capital funding commitment will fall over 3 financial years to 2017-18 and has been submitted to Scottish Government Finance for consideration. The cost in 2015-16 can be covered from within the capital allocation to the Ferries Budget. The cost in 2016-17 will however require an increased capital allocation of around £20m.

13. Capital funding will be provided by loans from Transport Scotland to CMAL, repaid with interest over an agreed period, usually 25 years. An initial business case was drawn up by CalMac to inform the recommendation to initiate the procurement by CMAL. This is currently being updated to reflect the increased capital cost. Over the estimated 30-year lifetime of these ships, the capital cost represents a small share of overall costs.

## **Presentational issues**

14. Subject to Ministerial approval and the clearance by SG Finance of the in-year and future funding commitments, CMAL will formally offer the contract to FMEL on 31 August which will be confirmed following the statutory 10 day standstill period. An initial announcement can be made to coincide with the formal offer, in agreement with the shipyard, rather than waiting for the 10 days.

15. Given the significance of the award in respect of Scottish Government investment in the ferry fleet, retention and creation of jobs at a resurgent Ferguson shipyard and the scale of the costs, we will work with Press TS colleagues and CMAL to ensure maximum positive publicity from this significant announcement. We will ask Press TS to lead on a Communications Plan.

16. It would be appropriate for Mr Mackay as Minister for Transport and Islands to lead on this announcement, highlighting the benefits to the islands as well as the jobs and training opportunities in Inverclyde.

17. As with any procurement, a legal challenge from one of the unsuccessful shipyards cannot be discounted. CMAL have not identified any particular risks in this regard and, in any case, are confident that any challenge can be defended. That said, the relationship between Scottish Ministers and Ferguson's owner is well known.

### **Recommendation**

18. We recommend that you approve the award of the two shipbuilding contracts by CMAL to Ferguson Marine Engineering Ltd.

[Redacted]

Transport Scotland Ferries Unit

[Redacted]

20 August 2015

**MINISTERIAL ENGAGEMENT BRIEFING: FIRST MINISTER - NICOLA STURGEON MSP 28<sup>th</sup> August 2015**

**ANNEX F**

*Attendees*

**Jim McColl OBE  
Chairman and CEO of Clyde Blowers Capital**

Jim McColl left school at 16 to take up an engineering apprenticeship with Weir Pumps of Cathcart, Glasgow. After gaining City & Guilds certificates at lower and higher level, he gained a BSc Degree in Technology and Business Studies at Strathclyde University. He returned to Weir Pumps in 1978, studying for the next three years for an MBA. Joined Diamond Power Speciality Ltd in 1981, an engineering company supplying equipment to the power industry worldwide; during his tenure he studied part time for a Master's degree in International Accounting and Finance. Head hunted by Coopers & Lybrand, in 1985 he became a consultant, working with companies in financial difficulties that needed guidance. In 1986 he left Coopers to become a self-employed "company doctor", during which he made money through two successful turnarounds resulting in his purchase of Clyde Blowers PLC; going onto acquiring six of the 7 competitors. Over the past 10 years Clyde Blowers has developed into a truly global portfolio of 83 Companies in 27 different countries, employing 5,000 people around the world, with an annual turnover in excess of £1.4 billion. Ferguson Shipbuilders was bought in 2014 after which was renamed to Ferguson Marine Engineering Ltd. He was appointed Officer of the Order of the British Empire (OBE) in the 2001. Has been awarded two honorary doctorates, by Napier University and Glasgow University.

**Liam Campbell General Manager/ Chief Executive of [Ferguson Marine Ltd](#)**

Liam was appointed in April 2015 – to present. He gained a honours degree in naval architecture and offshore engineering at Strathclyde University and has worked for a number of shipping companies in Norway, Korea, China the middle east & Holland.

**Tom Docherty  
Chief Executive Officer**

Tom Docherty was appointed Chief Executive Officer in April 2014. He is a marine engineer and has held a number of senior management positions within the maritime industry. Mr Docherty was Managing Director at Red Funnel and has experience working in ferries, towage and salvage vessels and the ports industry. His early career saw him operate at a senior level in the oil industry, including manager of the marine terminal at Fawley, Esso's largest marine terminal in Europe.

**Andrew Duncan  
Director of Vessels**

Andrew Duncan was appointed Director of Vessels in June 2007. Andrew has extensive experience in the Merchant Navy and had risen to the rank of Chief Engineer before working ashore with the Northern Lighthouse Board latterly in charge of the new build programme.

## **SCOTTISH SHIPBUILDING AND FERGUSON MARINE ENGINEERING LTD**

Scottish shipbuilding employment in 1979 was around 35,000 (Source: Scottish Economic Bulletin Number 57, September 1998). From 1993 to 2013 there was a 36% fall in those employed in shipbuilding from 11,100 to 7,100. (Please note that these figures are from two separate employment series: this may impact on data due to methodology differences between sources.)

Within the industry, Ferguson Marine Engineering Ltd (FMEL) is the last remaining commercial shipbuilder in Scotland with around 80 employees in Port Glasgow. The business was initially established in 1903 and is now part of the Clyde Blowers Capital Group, the new owners have a stated intention to grow the business to up to 300 employees in around 2 years. The other key players in the sector are BAE Systems (Scotstoun and Govan) and Babcock Marine (Rosyth), both involved in naval shipbuilding, between them employing around 4,300.

### **Ferguson Shipbuilders**

From 1995 until going into administration in August 2014, Ferguson Shipbuilders was controlled by Holland House Electrical (essentially the Dunnet family). Clyde Blowers Capital acquired the business on 10 September 2014. The change in ownership followed a period of uncertainty at Fergusons at the end of 2013 as it neared completion of a project to deliver the second hybrid ferry (MV Lochinvar) for Caledonian Maritime Assets Limited (CMAL). Officials from Transport Scotland, Scottish Enterprise and across the Scottish Government had worked with CMAL and Fergusons to alleviate this pressure by agreeing to a contract variation, securing delivery of the MV Lochinvar. Shortly thereafter, and with continuing cash-flow pressures and no prospect of a trade sale as a going concern, administrators were appointed on 15 August 2014.

### **Engagement**

Ministers and officials were actively engaged with the company, particularly as financial pressures increased. Prior to this a number of Ministers (including Alex Neil, Stewart Stevenson and Fergus Ewing) had all made separate visits to the yard at various times during 2011-13, and during the development and commissioning of the hybrid ferries: indeed Ms Sturgeon, as DFM, launched the first hybrid ferry (MV Hallaig).

Immediately upon the appointment of Administrators in August 2014 Mr Swinney announced that he was convening a taskforce with the aim of retaining a functioning shipyard and re-employing as many of the Fergusons staff as possible. This included Mr Swinney; Mr Brown; representatives from Inverclyde Council, including the leader of the Council and its Chief Executive; the administrators, KPMG; PACE; DWP; Scottish Enterprise; Scottish Government; CSEU; local shop stewards; the local MP and 3 MSPs. The Taskforce met in Greenock 4 times between 18 August 2014 and 15 September 2014.

As First Minister, Alex Salmond spoke and met with Fergusons shop stewards several times to assure them that the Scottish Government was doing all it could to secure the future of the yard. He also visited the yard three times during the uncertainty, including on 10 October 2014 when he welcomed the purchase by Clyde Blowers Capital and the award of a third hybrid ferry contract by CMAL. This secured all 77 jobs that were at risk with the new owners offering employment to all of the affected workers.

### **Ferguson Marine Engineering Ltd – future plans**

Following the purchase of Ferguson Shipbuilders by Clyde Blowers Capital the company name was changed to Ferguson Marine Engineering. CBC has a long and successful track record of directly managing and delivering operational improvement in its portfolio companies. This facilitates a high level of advisory and operational input into, and alongside, the portfolio companies. CBC is an active investor with real operational investment in its businesses. The company is led by Founder, Chairman and Chief Executive, Jim McColl and includes investment and operational executives, lawyers, a tax director and finance executives.

There was media coverage on 25 February 2015 around Mr McColl's plans for expanding Ferguson Marine Engineering, where he noted that he was looking at possible sites, including BAE System's site at Govan. Mr McColl has big ambitions for Ferguson Marine Engineering, but the site in Port Glasgow is limited in size with no real options for expansion. There have not been any formal approaches from Mr McColl about the idea of Fergusons taking over the Govan yard and news articles made clear that he was considering a range of options, also naming the Steel Engineering site in Renfrew as a possible location.

Although BAE Systems has not made any announcement about its future structure on the Clyde there is a general awareness that the company favours a single site approach at Scotstoun. The Govan yard is currently building the final three blocks of the Prince of Wales aircraft carrier, and has also started work on three OPVs: this work is expected to keep the yard busy until 2018, so whatever the outcome of BAE's current review the site would not be available until that date. Scottish Enterprise has started internal work around potential alternative uses for the site, as has BAE Systems and Fergusons is another possibility to be included in that work.

**Manufacturing and Construction Team  
March 2015**

## Caledonian Maritime Assets Limited

### Potential questions on Dual Fuel ferries announcement

#### **Fit at port**

**Will they fit all 15 ports and harbours identified by the Minister without any major work needing done to these pier/harbour etc or will they only fit after modifications? (PQQ stating minor modifications only to all identified ports).**

*Over their lifetime of 30 years, the ships will potentially be required to access 15 harbours across the network. We know they will initially operate on the Uig Triangle and Ardrossan-Brodick routes during their first few years of service. Therefore, any modifications required will not be necessary at all 15 harbours when they enter service.*

*The ferries will be designed to use existing berths without significant redevelopment and we are currently working with the various harbour and port owners and authorities at the initial five ports the ferries will serve to investigate what infrastructure modifications may be required. CMAL owns the harbours at Tarbert and Brodick and we are conducting our own assessments at these ports. This work is ongoing, but we expect the main areas that could require some modification are the passenger access systems, bollards and fendering.*

*Brodick will be rebuilt over the next two years and funds are currently earmarked in CMAL's Ten Year Plan for future refurbishment of Tarbert Harris.*

**What do you consider to be 'minimal modification' and what does this mean (ball park) in terms of time and cost?**

*We are currently working with the various harbour and port owners and authorities at the initial five ports the ferries will serve to investigate what modifications may be required. CMAL owns the harbours at Tarbert and Brodick and we are conducting our own assessments at these ports. This work is ongoing, but we expect the main areas that could require some modification are the passenger*



*access systems, bollards and fendering. Each port is different and any work that may be required is likely to vary in scale and nature, so it's not possible at this stage to estimate time and costs.*

**Will there need to be any works at the ports they will initially serve and who will pay for this work on the three that are not CMAL owned?**

*We are currently working with the various harbour and port owners and authorities at the initial five ports the ferries will serve to investigate what modifications may be required. CMAL owns the harbours at Tarbert and Brodick and we are conducting our own assessments at these ports. The investment required is part of our discussions with harbour and port owner. Some of the work at our own harbours and ports is covered by our ongoing harbour upgrade and maintenance programme.*

**Are the works currently being undertaken in Brodick factoring in the needs of the new vessel to ensure that the new ferry can be accommodated with no further works needed?**

*Yes the new facilities will easily accommodate the new vessels at all states of the tide.*

**What is needed at Tarbert to accommodate the new ferries – are the existing PAS, linkspan and fenders adequate to accommodate a ferry of this size and draft?**

*We are currently assessing any modifications needed at Tarbert, some of which may be covered as part of our ongoing harbour upgrade and maintenance programme currently scheduled for some time between 2016 and 2020 depending on other priorities*

## **Dual fuel**

**Why have you gone with an “innovative” dual fuelled spec rather than a cheaper, traditional marine diesel model?**

*The original specification from the operator was for an LNG-fuelled ferry, which we altered to dual fuel because LNG supply is not currently readily available in Scotland.*

*In addition, CMAL is committed to leading the way in innovative and greener ferry design.*

*When fully operating on LNG, these ferries will help Scotland meet our ambitious climate change targets. From an efficiency and emissions perspective, they are designed to operate on either marine gas oil or liquefied natural gas (LNG), where benefits will be gained by a marked reduction in CO<sub>2</sub> and sulphur and nitreous oxides emission.*

**What specifically are the emissions savings that can be guaranteed by this expensive, largely untested design?**

*When fully operating on LNG, these ferries will help Scotland meet our ambitious climate change targets. From an efficiency and emissions perspective, they are designed to operate on either marine gas oil or liquefied natural gas (LNG), where benefits will be gained by approx. 20% reduction in CO<sub>2</sub> and virtually full reduction in sulphur and nitreous oxides emission. The technology is not new. There are about 60 LNG vessels currently in operation and around a further 60 on order globally.*

**How much extra is the future-proofing for LNG adding to the cost of the basic build?**

*We estimate it to be less than 4% of the project but should we say choose to refit this in the future it would be prohibitively expensive. It therefor makes sense to future proof the ferries and build it in now as it will come. This is the same pattern experienced in Scandinavia and now many ferries run on LNG*

**Why are you building an LNG ferry when there is currently no supply or storage in Scotland?**

*The original specification from the operator was for an LNG-fuelled ferry, which we altered to dual fuel because LNG supply is not currently readily available in Scotland. Currently, LNG can be transported to Scotland from England. It is for the operator to consider the cost and emissions benefit ratio and decide how best to fuel the ferries. To start with, they can run on marine gas until LNG is widely available. This is the same approach that other countries have taken to introduce LNG fuelled ferries. For example, in Norway, every car ferry is LNG, but the supply structure wasn't always available.*

**Ferry design**

**Why have you specified 100m length as this restricts their usage on a number of routes, including Islay and Mull?**

*An independent demand led analysis was conducted for each of the communities served by the CHFS. This enabled forecasting of the future needs for passenger capacity and vehicle deck capacity on each route.*

*Transport Scotland, CMAL and CFL are considering the longer term redeployment of one of the new vessels to service the Islay route, subject to modifications to the Islay route ports to accommodate a vessel of this size.*

**Can you give more information on the detailed demand led analysis/modelling carried out to decide that 100m was the appropriate length for the carrying capacity on 15 routes?**

*Independent consultants were commissioned to estimate the demand for each of the communities served by CHFS routes. This included traffic from passengers, cars, coaches and commercial vehicles and covered the period from 2014 to 2039. The demand estimates were fed into a model designed for this exercise to ensure all routes were analysed on a consistent basis. This enabled forecasting of the future needs for passenger capacity and vehicle deck capacity on each route.*

**Do you have any plans to develop a standard specification for future ferry procurement to ensure maximum usability and that new vessels fit every one of your 24 ports?**

*There are no plans to develop a standard specification for ferry procurement. A number of factors need to be considered when designing a specification for new ferries, including community and route demand.*

*A standard specification may not allow us to take advantage of innovations in maritime engineering and tends to lead to too many compromises.*

### **Vessel deployment/replacement**

**How imperative is it to consider maximum flexibility of vessel deployment when commissioning new ships? What protocols do you follow in terms of ship design and port modifications to factor this in?**

*The two new ships will be capable of operating to a large number of ports, we plan up to 15. Whilst flexibility is an advantage there is also a need to conduct a cost benefit analysis as it clearly costs money to make sure a ship is capable of being able to operate to a large number of ports and routes.*

**Who decides when a vessel is replaced or decommissioned – TS, CMAL or CalMac – who takes the lead?**

*It is part of CMAL's role to procure replacement vessels. Transport Scotland works with both CMAL and CalMac to develop a programme of ship retentions, cascades through the network, acquisitions and disposals of redundant ferries to deliver the Scottish Ferry Services: Ferries Plan in the timescales set out by the Scottish Government.*

*A tripartite Vessel Replacement and Deployment Steering Group involving the three organisations was established to review the Ferries Plan outcomes and provide a suitable implementation programme that meets the plan requirements.*

**Which should come first – the need for a vessel on a route or commission a vessel and then decide where she should sail?**

*The two have to work in tandem. The Ferries Plan published in 2012 provides a basis for the shape of all of Scotland's ferry services until 2022 and beyond as vessels have a 30 year design life. It underpins the Vessel Replacement and Deployment Plan that provides a framework for deciding which vessels can operate on the various routes around the network, depending on the capacity needs. CalMac Ferries operate a fleet of 10 major vessels and 21 non-major vessels in the delivery passenger and vehicle services in the Clyde and Hebrides and ultimately it is for the operator of the service to decide how fleet vessels are deployed.*

*The Vessel Replacement and Deployment Plan (VRDP) is intended to complement the Ferries Plan by also considering historical and projected customer demand and the on-going provision of capacity to meet that demand.*

*Independent consultants prepared an estimate of demand for each of the communities served by CalMac based on passengers, cars, coaches and commercial vehicles, covering the period 2014 to 2039. This information is being used in a model to predict future needs for passenger vehicle deck capacity to inform our vessel deployment and replacement strategy in conjunction with the operator, CalMac and Transport Scotland.*

**Is there an assured budget for vessel replacement – investment currently seems ad hoc and even political (e.g. third hybrid for FMEL right before SIR that still has no route assigned to it so could be argued isn't needed at this time)?**

*CMAL own a fleet of vessels funded by the Scottish Government. The Scottish Government fund the capital cost of vessels through voted loans to CMAL and also through an ongoing operational cost for charter within the subsidy currently paid to CalMac. CalMac pay CMAL for the lease of the vessels and that money, together with harbour access charges is used by CMAL to repay the loans to the Scottish Government. It is also used to fund maintenance, small scale capital projects, pension liabilities, general running costs and to build up a contribution for the larger capital spends. One vessel, the Loch Seaforth, is financed through an operating lease financing arrangement with Lloyds Banking Group.*

*We work closely with the current operator, CalMac Ferries Ltd and Transport Scotland on a vessel replacement plan to make recommendations on what is needed to service the current and future needs of the fleet.*

*Specific questions about the budget for future vessels should be addressed to the Scottish Government.*

**In over eight years of SNP government, only four vessels have been commissioned for the CHFS fleet (with another two out to tender) and some would say that the decisions have been political to quieten angry voices on the islands rather than operational. The previous Lab/Lib government commissioned six in eight years, with an additional two commissioned right before devolution. Do you think this shows a markedly different attitude from the SNP, who seem happy to have an ageing fleet, frequently stricken with mechanical and technical failures and service outages? How can you change their attitudes?**

*Ferries are an essential part of Scotland's transport network and the SNP Government commissioned the first ever comprehensive review of ferry services in Scotland in 2008, culminating in the Ferries Plan, which sets out strategic guidance for the provision of ferry services in Scotland over the next 10 years. It was published in December 2012 and we have been working closely with colleagues at Transport Scotland and the operator, CalMac Ferries Ltd on the Vessel Deployment and Replacement Plan which forecasts that a further four new major vessels will need to be procured in the period to 2025, subject to funding availability. This will introduce new vessels serving Islay, Mull, Arran, the Western Isles and other communities; enable the achievement of the Ferries Plan; respond to forecast demand; and increase reliability by reducing the average age of the fleet.*

*Following these orders for the two dual fuel ferries, designs will be developed for a variety of further replacement vessels maintaining a focus on safety, comfort, reliability, efficiency and effectiveness.*

## **Contract award**

**Why has the cost of the contract risen so much – Keith Brown valued the contract at around £60 million in October 2014?**

*No value for the contract has previously been given, as it was determined through the procurement process and subject to commercial negotiation. The final value reflects the specification of the FMEL tender, which was the highest quality bid and offered the best value for money.*

**Why did you decide on a 50/50 technical/price split – will this not just drive down quality in the design and build to ensure that it is all done as cheaply as possible?**

*The 50/50 weighting was designed to ensure that we procure two vessels which are of the highest quality, meeting a specification that will future proof the ships and for a price that offers best value to the public purse. We are confident that the bid from FMEL will deliver on both quality and price, as has been the case with previous vessels from the yard, including our hybrid ferries.*

**Was the unusual 50/50 split on price and technical scoring to ensure that FMEL had the best chance of success?**

*The 50/50 weighting was designed to ensure that we procure two vessels which are of the highest quality, meeting a specification that will future proof the ships and for a price that offers best value to the public purse.*

**Have you awarded the contract to FMEL because SG/TS told you to do for publicity generating potential/keeping jobs in Scotland rather than on the grounds of cost and operational efficiency?**

*No. We have undertaken a rigorous procurement process over the course of this year with the six shipyards shortlisted for this contract and the FMEL scored highest and so they have been awarded the contract. We worked closely with colleagues at CalMac Ferries Ltd to ensure that the design of the ferries follows their requirements and they were involved in assessing that the tenders met with their specific needs, however CMAL undertook the final evaluation and informed TS and SG of our decision.*

*Scottish Ministers then confirmed that funds were available to announce the preferred tenderer and we will now finalise all details and award the contract in due course.*

**Is the FMEL bid definitely the vessel design that best meets the operator's original specification?**

Yes

**Will the new jobs all go to local people?**

*It is for FMEL to decide the mix of skills and experienced needed to build the ferries to our specification and where to recruit their staff.*

### ***Reliability of ferries***

**Are their issues with vessel reliability due to the ageing fleet that CMAL owns? Do you expect the operator to cope with old ships where parts are difficult to source and take the flak from customers when the ferries are cancelled?**

*To deliver the Ferries Plan in the timescales set out by the Scottish Government, Transport Scotland has been working with CMAL and CalMac to develop a programme of vessel retentions, cascades, acquisitions and disposals. The Ferries Plan included an outline proposed Vessel Replacement Programme as well as a proposed programme of Port and Harbour Works.*

*The Vessel Replacement Deployment Plan forecasts that a further four new major vessels will need to be procured in the period to 2025, subject to funding availability. This will introduce new vessels serving Islay, Mull, Arran, the Western Isles and other communities; enable the achievement of the Ferries Plan; respond to forecast demand; and increase reliability by reducing the average age of the fleet.*

### **Ports and harbours**

**Should CMAL own all of the ports and harbours served by the CHFS contract, especially busy ports like Ardrossan and Dunoon? If so, how much would it cost to buy the outstanding ports and who would pay? Is this a goal of TS?**

*At CMAL we aim to provide efficient, cost effective and safe harbours and associated port infrastructure for operators, communities and users in and around Scotland.*



*The Ferries Plan included an outline proposed Vessel Replacement Programme as well as a proposed programme of Port and Harbour Works.*

**How much would it cost to bring all ports up to spec to be served by one efficient ferry design (in terms of fuel, speed, and passenger/vehicle numbers)?**

*This is not practical given the wide range of ports and requirements and certainly not feasible in the short term. A longer term plan of careful replacement and cascade of ferries is the most sensible approach.*

# CMAL Ferry contract FM CONTENT WITH PRESS LINES - 29 AUGUST 2015

## [New Jobs created Press release](#)

[Redacted]

FM is content.

Thanks

[Redacted]

[Redacted]

**Deputy Private Secretary to the First Minister**

5<sup>th</sup> Floor | St Andrew's House | Regent Road | Edinburgh | EH1 3DG | T: [Redacted] | M: [Redacted]



Office of the First Minister of Scotland  
**FirstMinister.gov.scot**  
Prìomh Mhinistear na h-Alba



**From:** [Redacted]

**Sent:** 28 August 2015 17:37

**To:** Minister for Transport and Islands; First Minister

**Cc:** [Redacted] [Redacted] [Redacted] [Redacted] [Redacted] [Redacted] [Redacted] [Redacted] Middleton DF (David); [Redacted] [Redacted] Communications First Minister; Cabinet Secretary for Infrastructure, Investment and Cities; Communications First Minister; [Redacted] [Redacted] [Redacted] [Redacted] [Redacted]

**Subject:** RE: For clearance: Ferry contract

Thanks[Redacted] , suggested amendment below.

Transport Minister Derek Mackay added:

“This is a significant investment that proves Scottish shipbuilding can succeed in a competitive market, with the FMEL team submitting the highest quality bid that offered best value for money.

“The vessels themselves will be ‘dual-fuel ferries’, allowing them to use cleaner fuel and future-proofing them for the advent of tighter regulations around sulphur emissions. This announcement will strengthen our ferry fleet, ensuring they will be able to benefit the communities that need them for decades to come.”



Jim McColl meeting with Keith Brown, Derek Mackay and Humza Yousaf - Further follow-up note - 13 April 2017 - Roy Brannen - 3 May 2017

DG Finance Mailbox [Redacted] PS/Transport Scotland [Redacted] Director of Financial Management Transport Scotland Directors [Redacted]  
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Higgins K (Kate) <Kate.Higgins@gov.scot>;  
[Redacted] [Redacted] [Redacted] [Redacted] [Redacted] [Redacted] [Redacted]

[Redacted]

The response from Jim McColl to Monday's meeting with CMAL is attached for information.

In answer to the specific points raised in your email below

*that the offer of cashflow is not what Clyde Blowers is looking for. Can you consider this further to bring this into line with what they require.*

[Redacted] Paragraph

[Redacted]

With reference to Mr Mackay's other query on Mr McColl's request:

*that the retention fee is removed*

[Redacted] Paragraph

[Redacted] Paragraph

Regards

[Redacted]

## ANNEX B

Exceptions under regulations 10(4)(e) (internal communications), 10(5) (e) (confidentiality of commercial or industrial information) and 11(2) (personal information of a third party) of the EIRs apply to some of the information you have requested.

An exception under regulation 10(4)(e) of the EIRs (internal communications) applies to some of the information you have requested because it is internal communication between policy officials pertaining to legal advice to Scottish Government Ministers about procurement processes.

This exception is subject to the 'public interest test'. Therefore, taking account of all the circumstances of this case, we have considered if the public interest in disclosing the information outweighs the public interest in applying the exception. We have found that, on balance, the public interest lies in favour of upholding the exception. We recognise that there is some public interest in release as part of open, transparent and accountable government, and to inform public debate. However, there is a greater public interest in high quality policy and decision-making, and in the properly considered implementation and development of policies and decisions. This means that Ministers and officials need to be able to consider all available options and to debate those rigorously, to fully understand their possible implications. Their candour in doing so will be affected by their assessment of whether the discussions on a contract award will be disclosed in the near future, when it may undermine or constrain the Government's view on future contracts.

Regulation 10(5) (e) – the confidentiality of commercial or industrial information where such confidentiality is provided for by law to protect a legitimate economic interest

An exception under regulation 10(5) (e) (confidentiality of commercial or industrial information) of the EIRs applies to some of the information you have requested. This exception applies because disclosure of this particular information would, or would likely to, prejudice substantially the confidentiality of commercial information provided by Caledonian Maritime Assets Limited (CMAL) and thus cause substantial harm to their commercial interests and to the unsuccessful bidders involved in the NEWBUILDCON procurement process.

This exception is subject to the 'public interest test'. Therefore, taking account of all the circumstances of this case, we have considered if the public interest in disclosing the information outweighs the public interest in applying the exception. We have found that, on balance, the public interest lies in favour of upholding the exception. We recognise that there is a public interest in disclosing information as part of open and transparent and accountable government, and to inform public debate. However, there is a greater public interest in protecting the commercial interests of companies when substantial harm can be made to their commercial interests.

Regulation 11(2) – To the extent that environmental information requested includes personal data of which the applicant is not the data subject and in relation to which either the first or second condition set out in paragraphs (3) and (4) is satisfied, a Scottish public authority shall not make the personal data available.

An exception under regulation 11(2) of the EISRs (personal information of a third party) applies to some of the information requested because it is personal data of a third party and disclosing it would contravene the data protection principles in Article 5(1) of the General Data Protection Regulation and in section 34(1) of the Data Protection Act 2018. This exception is not subject to the 'public interest test', so we are not required to consider if the public interest in disclosing the information outweighs the public interest in applying the exception.