

What	6 weekly meeting with Tim Hair, Turnaround Director of Ferguson Marine and Alistair Mackenzie, Chair of the Ferguson Marine Board of Directors.
Where	MS Teams – [redacted]
When	Monday, 17 August 2021 16:30 – 17:00
Key Message(s)	Reaffirm Scottish Government's commitment to the vessels, the workforce and the yard.
Who	Tim Hair, Turnaround Director of Ferguson Marine Alistair Mackenzie, Chair of the Ferguson Marine Board of Directors
Why	This is the second in a series of meetings with the Turnaround Director and Chair. The purpose of the meeting is to discuss the turnaround of the yard and progress against delivery of 801 and 802.
Supporting official	[redacted]– Strategic Industrial Assets Tel: [redacted] [redacted]–Strategic Industrial Assets Tel: [redacted]
Briefing contents	Annex A: Agenda Annex B: Background Briefing

Agenda

- **Greetings**
- **General update on progress**
- **[redacted]**
- **Other Future Work Opportunities**
- **[redacted]**
- **Ms Forbes Visit to Yard**
- **AOB**

Background Briefing

Ferguson Marine Background

In 2014, Fergusons entered administration and was purchased by Clyde Blowers Capital (CBC). In 2015 the company secured the £97 million contract to build two ferries for Caledonian Maritime Assets Limited (CMAL). The MV Glen Sannox (801) and a second vessel (802), the original completion dates were April 2018 and October 2018, respectively.

Ferguson Marine Engineering Limited (FMEL) Directors filed a notice of intention to appoint administrators on 9 August 2019 and administrators were appointed on 16 August 2019. The Scottish Government operated the yard under a management agreement with the administrators until the commercial transaction to bring the yard into public ownership was concluded on 2 December 2019.

Contract Costs

Following the acquisition which brought Ferguson Marine into public ownership, the Contracts for 801 & 802 were novated to Ferguson Marine Port Glasgow (FMPG).

The contracts have a contractual price, inclusive of agreed variations, of £98.5 million. Prior to Ferguson Marine being brought into public ownership, CMAL advanced payments totalling £83.0 million in respect of the Contracts. The revised cost to complete the contracts was estimated at between **£110.3 million and £114.3 million** in December 2019 by the Turnaround Director of Ferguson Marine. The Turnaround Directors August report confirmed these numbers and his subsequent June 2021 report maintains these costs. This means £193-197m will be paid for the vessels against a revised contract price of £98.5m.

Updated Schedule

Ferguson Marine submitted a report to the Scottish Parliament's Net Zero, Energy and Transport Committee on 24 June 2021 as part of regular quarterly updates on progress as requested by the committee in their report on ferry procurement. The report details the impact that COVID-19 and shortages of local skilled labour has had on delivery schedules and pandemic-related costs. This report is the second update to the programme to deliver Vessels 801 & 802 and should be considered alongside the initial report, issued to Scottish ministers on 9 December 2019, and the first update issued on 21 August 2020.

These factors have created a total 15-week delay in the construction of both vessels. As a result, MV Glen Sannox (801) is scheduled to be delivered between **July 2022 and September 2022** while Hull 802 is scheduled to be delivered between **April 2023 and July 2023**.

August 2020 Update		June 2021 Update	
Delivery Range	Cardinal	Delivery Range	Cardinal

		Date		
801	April to June 2022	14 April 2022	July to September 2022	25 July 2022
802	December 2022 to Feb. 2023	8 Dec. 2022	April to July 2023	3 April 2023

The COVID-19 pandemic caused six months of disruption in 2020 and productivity has continued to be impacted due to a further shutdown in January 2021 and the introduction of additional COVID-19 safety measures. The timeline impact of ongoing disruption has been calculated as seven weeks, with additional costs of **£1 million**, which reflects the update given to parliament in March 2021. It brings the total COVID-19 costs to **£4.3 million**, which is treated as an exceptional item and does not affect the overall project budget. The overall project budget remains stable and **unchanged at £110.3 million to £114.3 million**.

Recruitment challenges since late 2020 have caused a delay of eight weeks as the shortage of local skilled labour meant that Ferguson's had to meet resource requirements by subcontracting smaller fabrications to Scottish businesses, which has supported 25 jobs, and introducing overseas workers.

The report also outlines achievements and progress to date, including a major milestone in the build of MV Glen Sannox with the completion of structural work.

Progress is visible with the installation of a reworked funnel and newly constructed mast, as well as completion of the structure around the stern and inside the hull. Remedial work has been completed on hull paintwork and the first layers of protective paint have been applied to the aluminum superstructure. Completion of the structure makes way for outfitting of the vessel, which includes the installation of 10km of pipework and extensive equipment, plus the creation of public spaces and cabins and full furnishing.

Despite the challenges and delays, shipyard management remains positive based on improved capability built over the past 18 months, including a highly qualified and capable leadership team in place. The senior management team now has 130 years of combined shipbuilding experience, with other new expert appointments and existing high-calibre employees promoted into key positions.

On 6 August 2021 officials provided a further update to Ministers on progress to deliver vessels 801 and 802. The Cabinet Secretary will receive such updates on a regular basis.

Options to Accelerate Delivery of 801/802

You requested that officials investigate all potential options to accelerate the delivery of vessels 801 and 802. The latest position on the progress of consideration and implementation of the possible options is listed below.

A number of the options are already in the process of implementation. These are:

- Bring 5 ICE engineers to the shipyard and use local ICE team to be the interface with ICE Romania (discussions underway with ICE).

- Recruit additional project engineering support to manage the remaining engineering work scope (underway).
- Increase outfitting at the unit stage before assembly on to the ship (opportunities under investigation).
- Manage the customer's representative (CMAL) such that they are approving presented work rather than policing partly completed work (Fergusons and CMAL agreeing terms of joint working).
- Change relationship with CMAL to make review and feedback more structured and efficient (Fergusons and CMAL agreeing terms of joint working).
- Additional Maritime and Coastguard Agency and Lloyds Register representatives to accelerate approvals and acceptance, to be based full time at yard (discussions commencing shortly).
- Increase overseas workers to resource fabrication 24/7 (to be implemented when appropriate planning in place to maximise value).

These options were in addition to a number of more minor changes to working practices, which didn't make the options list, but were instead implemented immediately as opportunities for improvement, which the yard routinely acts on when identified.

Additional to the options presented to you, further capability improvements have since been made in project management and planning to ensure more efficient operations, and support detailed management of work packages and control of materials.

These options progress alongside ongoing improvements targeting the smooth build out of the ferries, identified in the Turnaround Director's June 2021 report to Parliament on the revised delivery schedule.

Consideration of one residual option is ongoing. This is the option to delay the commissioning of the vessels' LNG systems to allow an earlier entry into service, but requiring a withdrawal from service at a later date to allow for the system to be commissioned.

A meeting between SIAD, TS and CMAL colleagues took place on 21 July as planned. [redacted]

Future Work

Direct Award [NOT IN THE PUBLIC DOMAIN]

Officials are exploring the potential for the direct award of SG-funded vessels to Ferguson Marine. While direct award could provide a pipeline of work for the yard, this is a complex issue with legal, procurement and policy implications.

Procurement and the Teckal exemption

Whilst procurement law generally requires contracts to be subject to open competition, direct award is permitted in certain narrow circumstances, including under the so-called Teckal exemption. Teckal allows a public body to directly award a contract to

an entity over which it has control, or for award between two entities which are controlled to a similar degree by a parent body.

[redacted]

Competition Rules and Value For Money

It is also necessary to consider competition law as the direct award of contracts has the potential to distort the market, in particular by providing overcompensation to the recipient. Our understanding is that direct award would have been compatible under EU State Aid rules provided that Teckal compatibility was met and a robust benchmarking exercise undertaken. As the transition from EU State aid to a UK subsidy control system has not yet concluded, we do not know what adequate benchmarking looks like in practice and what guarantees it might offer against legal challenge from other yards or jurisdictions [redacted]

In all direct award scenarios, we anticipate a benchmarking exercise to be a key part of the process. Benchmarking is intended to ensure that a contract is priced competitively, even where it has not been competitively tendered, and that a yard can deliver efficiently and effectively in comparison to its competitors. This is to ensure there is no overcompensation to the recipient that would have the potential to distort the market. It would also seek to provide assurance that any contract award would satisfy public finance value-for-money and accountability requirements, and ensure the contract can withstand any scrutiny in the Scottish Parliament and from Audit Scotland.

Ferguson Marine recently commissioned a broad benchmarking exercise to assess their productivity against competitors and identify areas for improvement. [redacted]

Next steps

In order to progress towards a recommendation, officials will be seeking detail on:

- the new competition regime, particularly the interface between it and the Teckal exemption;

[redacted]

[redacted]

[redacted]

Visit to the Yard

You are scheduled to visit the Ferguson Marine yard between 13:30 and 15:30 on 25 August 2021.

Indicative Agenda for Visit

The Turnaround Director has suggested you meet 3 small groups of workers from different levels and disciplines within the yard. The meetings will be without management present and will allow you to form your own view.

13.30 arrive & meet Tim Hair

14.00 Group 1

14.20 Group 2 (union selected)

14.40 Group 3

15.00 Walking tour of yard and close out with Tim Hair

15.30 Depart

The membership of the Union is about 30% of the total workforce, all of whom are shop floor workers. Tim will choose other groups from across the yard, including a group of middle managers to allow a balanced view of the workforce.

Meeting between FMPG, CMAL and Officials

You will be aware that an email was received by DG Economy from [redacted] Caledonian Maritime Assets Limited (CMAL) in relation to work being undertaken on MV 801/MV Glen Sannox and MV 802 at Ferguson Marine (Port Glasgow).

Officials proposed an initial meeting between representatives from CMAL and Ferguson Marine (Port Glasgow) with officials from Strategic Industrial Assets Division (within DG Economy) and Transport Scotland's Ferries Unit in attendance. This meeting is now scheduled for **23 August 2021**.

The meeting will be an opportunity for all parties to discuss the points raised in [redacted] letter, regarding delivery timescales, programme details/procedures and governance in a collaborative and collective manner. Officials will update Ministers on proposed next steps thereafter.