

Mo Rooney
Strategic Industrial Assets Division
28 September 2021

Cabinet Secretary for Finance and the Economy
Minister for Transport

Ferguson Marine (ferries 801 and 802) Progress Update: August 2021

Purpose: To update Ministers on progress towards the delivery of ferries 801 and 802, challenges, and next steps.

Headline: Objective information on progress towards delivery of the vessels remains limited. Advice from CMAL is that progress on 801 is slow to minimal. There is significant programme slippage and high level progress milestones have been missed. Progress is currently too slow to complete 801 in line with the current published cardinal date. While it might be possible to deliver the vessel within the published delivery window, it is not possible to confirm this in the absence of objective data. Progress on 802 is slow but current expectation is that 802 will be delivered within the published delivery window. The Ferguson Marine Board are leading the development of a recovery plan to realise improvement and acceleration to in the build of the vessels.

Background

1. The Turnaround Director of Ferguson Marine wrote to the Net Zero, Energy and Transport Committee on 24 June to provide a quarterly update as requested in the Rural Economy and Connectivity Committee's report of 9 December 2020. The Turnaround Director's update provided a new schedule for delivery of the vessels with delivery of 801 now scheduled for July-Sept 2022 (previously Apr-Jun 2022) and 802 scheduled for April-July 2023 (previously Dec 2022-Feb 2023).
2. The next formal update to the Committee is due by 30th September. We will share the final draft of this update with you when available.
3. The Chair of the Board of Directors of Ferguson Marine is aware of the content of this monthly performance update to you and is in agreement with the position presented.

Quality of reporting

4. As noted in the last monthly update, CMAL and the Ferguson Marine Board share concerns about the quality of progress reporting by management. The 'recovery plan' intensive improvement exercise highlighted in our July 2021 monthly update to you remains in progress. Current status of that programme was discussed at a FMPG board meeting on 23rd September. The data gathering and validation element of the exercise is due to complete on schedule at end September with implementation of improvement initiatives to be progressed in October. Implementation of improved planning systems, controls and monitoring based on

objective data is essential to deliver improved build productivity and progress reporting.

Overview

5. Progress in August remains slow and behind expectations. Given the limited level of progress achieved, CMAL are of the view that it is difficult to see how Ferguson Marine can achieve the delivery of 801 in the delivery window set out in the Turnaround Director's June 2021 quarterly update to Committee.

6. Due to the absence of quantitative metrics and reporting, it is difficult to be certain as to extent of progress. CMAL have estimated the extent of slippage. The slippage in a number of areas noted last month appears to have extended (last month's slippage in brackets):

- Installation of Pipe Spools in Zone 2 (Main and Auxiliary Machinery Spaces) - slippage of 61 calendar days. (31)
- Pressure Testing of Pipe Spools in Zone 2 (Main and Auxiliary Machinery Spaces) - slippage of 50 calendar days is reported against the planned revised baseline start date for pressure testing system piping in the main and auxiliary engine rooms. (19)
- Fabrication of the Forward Mast Structure - slippage of 46 calendar days. (39)
- Erection of Forward Mast - slippage of 68 calendar days. (39)

We are unclear how critical this slippage is, with advice from CMAL that the departure from programme does not allow for a ready assessment of the working days required to recover the slipped calendar days.

7. Weaknesses in the planning of the build remain a key issue and the control and issuing of work packages is a key improvement initiative due to be delivered in October.

Successes

8. The Board have confirmed that the Recovery Programme for work packs and material control is making good progress and recent personnel changes in Planning and Projects are having the required impact.

9. They are also of the view that the sub contracted labour from ^[redacted] continue to make good progress on the steel work for 802. The bulbous bow was successfully attached to 802.

10. A new process for Owners Observation Reports appears to be working well though a large number of OORs remain outstanding. A period of 'freeze' has been agreed to allow legacy items to be addressed and any duplications to be removed from the system.

11. A revised 'Change Control' procedure/process has been introduced in the yard.

Difficulties

12. Weight of vessel 801 remains an issue. The vessel is around 44 tonnes overweight, the level of contingency remaining in the build is 90 tonnes. Non-executive Board members met with the Fergusons management team on 15th September to discuss and agree changes to improve confidence. The planned joint workshop between FMPG management and CMAL is yet to take place: officials are pressing for the workshop to be scheduled.

13. As you are aware from your conversation with the Turnaround Director this morning, stability of the vessels remains an issue. The yard have contracted a firm [redacted] to complete the stability calculations. Stability will feature as a standing agenda item for your weekly meeting with Fergusons management.

14. The Turnaround Director's update to the Net Zero, Energy and Transport Committee is due by 30th September and is expected to attract some attention.

Stakeholder relationships and engagement

15. The relationship between Ferguson Marine and CMAL is currently positive, though given the lack of progress this is an inevitable element of tension. While "creative" tension can be positive, we remain aware of the possible difficulties that can arise in a relationship of this nature. We understand that CMAL are keen to have a Board to Board session with Ferguson Marine, to better communicate their concerns and understand the Ferguson Marine perspective.

16. As requested by the Cabinet Secretary, the monthly report received to us from CMAL, which has informed this submission, is attached at Annex A.

17. As agreed with the Cabinet Secretary on 21st Sept (and as commenced this morning), weekly meetings will take place between the Cabinet Secretary and Ferguson Marine management until such point as the Cabinet Secretary has a satisfactory level of assurance as to progress. This meeting will be supported by a short written report from Ferguson Marine which will be received to Private Office on the Friday of the preceding week and will form the basis for discussion in the weekly meeting.

18. We have agreed with Calmac that they can begin the process to recruit for the senior crew roles on 801 (Ship's Master, Chief Engineer, 2nd and 3rd Engineers). Transport Scotland and CMAL have endorsed this approach. These roles are essential for the commissioning of the vessel. Not recruiting now would be a visible signal that we expect the yard to deliver the vessels beyond the published delivery window. We have agreed to the recruitment of only these senior roles at this time to minimise cost. Cost can be borne on the capital budget and is not a resource pressure. If the commissioning date for 801 does slip, we have discussed with CalMac the possibility that any new recruits could be redeployed to elsewhere in the fleet.

Board commentary on progress, challenges and next steps

19. At the FMPG Board meeting on 23rd September the Directors discussed progress of the 'Recovery Programme' under the headline pillars of :

- Bill of Materials
- 801 'As Built' Ship Survey
- Stock/Inventory Count
- Planning

20. It was noted that the related activities are due to complete as originally scheduled by end September. Following completion of these fact finding/data validation activities, effort will now focus on integrated extraction of data from separate shipyard systems [redacted] to run a functioning Materials Requirements Planning (MRP) system. First run of the MRP system is anticipated by end September.

21. In addition 'delinquent' work packs have been removed from service and appropriate work pack management controls introduced. Revised 'Change Management' and 'Inventory Management' procedures/controls introduced.

22. As the Cabinet Secretary is aware, the process to replace the Turnaround Director is ongoing and a panel consisting of the Chair plus 3 Non-Executive Directors interviewed 2 candidates this week. The recruitment agency continues to identify candidates and at least one further candidate has been proposed for interview. More may yet follow.

Next steps

23. Following satisfactory remedial completion of stock/inventory management, work pack compilation and issue, support systems implementation (and ability to systematically monitor, control and report), the Board will review shift patterns and supplement resource capacity through their resourcing partner [redacted].

24. Ferguson Marine management expect the improvements being made to planning systems to result in productivity improvements, with the ability to drive forward progress at a greater pace. On the basis of the recovery plan we expect the following will be implemented through October, with benefits realised in November.

- Improvements in planning and project management are due in October this will improve the available analytical data making the assessment of on-board build easier.
- Implement defined processes for work packaging in October.
- Address the disconnects between planning team and operations in October.
- Completion of the arrangements already implemented to improve linkage between Engineering/Operations to deal with insufficient project engineering to control detail leading to a high number of detailed design changes.

Conclusion

25. Ministers are asked to note the content of this update, the slow pace of progress, and planned next steps.

26. The Cabinet Secretary now has a weekly meeting with Fergusons management. If the Minister for Transport would like to discuss this update with officials, we would of course be happy to.

**Mo Rooney
Strategic Industrial Assets Division**

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Cabinet Secretary for Finance and Economy Minister for Transport Minister for Business, Trade, Tourism and Enterprise			X X		X

DG Economy Chief Executive Transport Scotland Reuben Aitken Mo Rooney [redacted] [redacted] [redacted] [redacted] Frances Pacitti [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted] [redacted]

ANNEX A – CMAL MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY OF 801 AND 801 (Separate PDF document)