

Mo Rooney
Strategic Commercial Interventions Division
22 February 2022

Cabinet Secretary for Finance and the Economy
Minister for Business, Trade, Tourism, and Enterprise,
Minister for Transport

Ferguson Marine (ferries 801 and 802) Progress Update: January 2022

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

Headlines:

- The delivery programme for the vessels is being reviewed in light of the legacy cabling issue communicated by Ferguson Marine to Parliament on 9th Feb 2022. This work is progressing. You will be verbally briefed on the progress of this work in your regular meeting with FMPG on 28th Feb.
- Advice from CMAL is that progress on 801 is insufficient to meet the existing timetable and there is a disconnect between the level of productivity required to meet targets and the productivity the yard delivers. There is significant programme slippage and high level progress milestones have been missed. There continues to be out of sequence working.
- Early indications are that a delay on 801 as a result of addressing the cabling issue will result in a knock-on impact on 802.

Background

1. The delivery programme for the vessels is being reviewed in light of the legacy cabling issue communicated by Ferguson Marine to Parliament on 9th Feb 2022.
2. The next formal update to the Net Zero, Energy and Transport Committee by Ferguson Marine is due by end March 2022. This will include an assessment by FMPG of the impact of the cabling issue on the schedule for delivery of the vessels, and costs.
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.

Overview of progress in January

4. Resourcing levels have increased to above pre-Christmas levels. However, efficiency remains low due to what CMAL consider to be an ineffective communication strategy. CMAL report that many work packages pursued in January were either over-resourced or suffered from a lack of equipment or consumables.
5. CMAL report slippage across a range of target dates, in particular dates for energising the main switchboards and the start of commissioning for auxiliary

systems, which have both been missed. It is unlikely that the main switchboards will be able to be energised for another two months because of late completion of background work in other areas. CMAL consider management of project dependencies, weaknesses in the planning of the build, and poor supervision to be key issues, with out of sequence working and reworking a consequence of this.

6. CMAL, FMPG and officials are meeting to resolve the ongoing Owner's Observations Reports (OOR) issue whereby there are a large number which have not yet been actioned by FMPG. We will provide you with a more detailed update on progress on this in our next monthly update to you.

7. The full CMAL report on progress in January is attached at Annex A. The FMPG Board does not share the views expressed by CMAL.

Cabling

8. The cabling issue reported by Ferguson Marine to Parliament on 9th February (identified by the yard end December/January) is a critical issue as regards deliverability of the programme in line with the current schedule. FMPG are currently reviewing the schedule, and we will update you on the timescales for this review under separate cover.

9. FMPG are currently developing their understanding of the cabling issue and possible solutions. Options under consideration are the use of junction boxes (essentially to extend cables) and the wholesale replacement of the cables. At the time of compiling this report the latter is the more likely option given the added assurance that this option will deliver in terms of integrity of the cables installed.

10. Whilst the information provided to you and the First Minister on the cabling issue appears to remain technically accurate, you may wish to ask the FMPG Board to provide you with a briefing paper on FMPG's current understanding of the cabling issue and a recovery plan. There would then be the opportunity for a discussion in your meeting with FMPG on 28th Feb.

Quality of reporting

11. Availability of quantitative metrics has improved in the period with measures on critical activities (e.g. pipe fitting, hot work etc) now available and reported in 'S' Curve format. CMAL continue to consider the basis for some of the performance information provided by FMPG to be questionable.

Financial Reporting

12. FMPG are currently working to understand how the cabling issue will impact the schedule to deliver the vessels and the impact this will have on overall cost. SG finance colleagues are aware of the potential impact to cost and will be working with the FMPG finance team to ensure the budget implications are understood.

13. In early course, we will want to understand how the cabling issue and rescheduling will impact the current capital budget for 2021/22. For financial year

2021/22 there is a capital budget set at £49.6m. From April 2021 to January 2022 (inclusive) there has been c.£41m spent of the capital budget on the build of 801 and 802. At this stage, we will want to establish if any of the cabling works or rescheduling are likely to impact the current year budget.

14. When the updated programme is confirmed we will want to understand the profiled spend to completion across 801 and 802 separately. This information should then be mapped against the progress of the plan and tied into key milestones of the delivery plan.

Board commentary on progress, challenges and next steps

15. Three FMPG Non-Executive Directors with shipbuilding experience attended the yard on 7 Dec to review the status of 801. A follow up inspection of 801 was undertaken on 10th Feb.

16. The 10th Feb visit gave rise to concerns about progress against plan, a view confirmed in 'S' Curve reports issued 2nd Feb. On further investigation it was confirmed that the critical increase in resourcing at end January/beginning February had not been achieved. [redacted] contract workers were projected to increase in number to 120 in last two weeks of January but only reached 104. [redacted] resourced up in line with the delivery plan but progress on modifications to pipe runs took longer than anticipated and material supply issues were encountered.

17. It was anticipated that these two factors had resulted in 3 to 4 weeks slippage (some weather downtime and power outage was also experienced in that period).

18. Planning remains an area of critical focus and pressure on availability and retention of experienced planners remains a challenge.

19. The new CEO, David Tydeman, is settling into his role and shared 'first thoughts' with the FMPG Board on 10th February. Whilst exposed to a challenging start to his role in handling the cabling issue, early indications point to a more inclusive and consultative style of management engagement.

Stakeholder relationships and engagement

20. Early indications are that the arrival of the new Chief Executive is having a positive impact on working relationships between FMPG and CMAL. The Chief Executive has shown willingness to engage with CMAL and maximise the value of their knowledge and understanding of the yard, and the ferries. This approach has been welcomed by CMAL.

21. As you are aware, a Board to Board meeting between CMAL and FMPG took place on 15th Feb 2022. This is considered by both parties to have been a constructive meeting. The briefing note provided to you by the FMPG Chair on this meeting is included at Annex B for completeness.

22. Regular meetings between Economy Ministers and Ferguson Marine are now well-established and the process of a short written report from Ferguson Marine for

discussion at the meeting appears to be working well for all parties. The next fortnightly meeting is scheduled for 28th Feb; the Cabinet Secretary is however meeting the Chair and CEO on 23rd Feb as part of her 6 weekly cycle of meetings with the Chair.

Next steps

23. In terms of next steps, Ferguson Marine’s priorities are:

- Continue to support new CEO into role.
- Quantify full impact of cables issue (time and cost).
- Monitor (any) recovery on pipework acceleration.
- Re-baseline programme for delivery of the vessels and agree basis for that with CMAL.

24. In addition to core business as usual activity in supporting FMPG to deliver the vessels (sponsorship, relationship management, progress and financial monitoring, and engagement in our capacity as shareholder), key next steps for officials will be:

- Continuing to support the transition to the new Chief Executive and his induction to the public sector.
- To bring the OOR resolution process to a conclusion.
- Drawing on the expertise of CMAL, challenge and support to FMPG in development of the revised programme.
- Ongoing engagement with FMPG Chief Financial Officer to monitor spend against projected costs.

Conclusion

25. Ministers are asked to:

- note the content of this update, the slow pace of progress, and planned next steps;
- confirm whether you wish to ask the FMPG Board to provide you with a briefing paper on FMPG’s current understanding of the cabling issue and a recovery plan.

**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 Director for Covid Business Resilience and Support Mo Rooney

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

ANNEX B – BRIEFING NOTE FROM FMPG CHAIR TO CABINET SECRETARY RE BOARD TO BOARD MEETING ON 15TH FEB 2022 (separate PDF document)