

Mo Rooney  
**Strategic Commercial Interventions Division**  
28 April 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: March 2022**

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

### **Headlines:**

- Ferguson Marine's quarterly update to the Net Zero, Energy and Transport Committee on 23 March 2022 set out the cumulative delays of eight months in the case of vessel 801 and six months for vessel 802. Delivery will now be between March and May 2023 for 801, and between October and December 2023 for 802.
- Working relationships are strong and the Chief Executive is driving a culture of collaboration. The revised programme of works to deliver each vessel is now under joint development with CMAL.
- The anticipated shift to a more commercially oriented, proactive leadership style of working under the direction of the new management team is now visible in work priorities.
- Testing of the 415-volt switchboard is now underway; the reinstallation of the recently removed legacy cabling has not yet begun.
- CMAL believe the yard and the build are heading in the right direction. Work is being undertaken for the right reasons. Nonetheless, they note it remains difficult to assess if the build is on track. CMAL would like to see faster progress on OORs, greater management of subcontractors, and greater coordination with the engineering function.

### **Background**

1. This monthly update reflects on progress made towards the delivery of vessels 801 and 802 in March. You may recall that we did not provide you with an update in March (reflecting on progress in February 2022). This was due to the significant overhaul of the programme schedule which was underway during that month as the yard navigated the impact of the legacy cabling issue. You had sight of Ferguson Marine's update to the Net Zero, Energy and Transport Committee which set out in detail the necessary changes to the schedule, risks, and the yard's planned next steps which met your needs in terms of update.

2. The formal update to the Net Zero, Energy and Transport Committee by Ferguson Marine was made on 23 March 2022. This included an assessment by FMPG of the impact of the cabling issue on the schedule for delivery of the vessels, and costs. Key points in the letter were:

- The cabling issue will cause a direct 4 month delay on vessel 801. The Chief Executive believes that given the emergence of legacy issues, an additional 4 months is required and so, his letter sets out that there will be a maximum delay of 8 months in the delivery of 801.
- Delays on 801 will inevitably lead to delays on 802. Ferguson Marine however believe they can reduce the delay on 802 to 6 months.
- This means that 801 will be delivered between March and May 2023, and 802 between October and December 2023.
- The total forecast costs to complete the vessels are expected to be between £58-59m and £61-63m for 802.
- Costs have increased from three factors – increases in labour hours, increases in materials, and overhead recovery costs due to the extended timeline.
- The revised delivery schedule was developed in collaboration with CMAL.

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 March**

4. Covid-19 cases are stabilising and Ferguson Marine continue to monitor the impact whilst reducing their control measures in line with Scottish Government guidance.

5. The core working week for yard workers is Monday-Thursday, and working times have been adjusted to create a single shift pattern where standard start and finish times are now between 06:45 hrs and 16:15 hrs. The remaining three potential working days (Fri-Sun) are worked by third party contractors and to a limited extent as overtime by weekday workers.

6. CMAL report that the progress to close out Owner's Observations Reports (OORs) remains slow. Currently 237 OORs remain open, an increase of 15 from CMAL's report on the previous month. 65% of the OORs relate to safety, maintainability, or specification requirements. CMAL consider that resolution of these is crucial prior to vessel handover.

7. CMAL's report also notes that inefficiencies in production supervision, understanding of the remaining project deliverables, and repetitive rework remain substantial risks to be addressed if delay is to be avoided.

8. Access to enclosed spaces was restricted in March pending the renewal of the required safety certification. This is now in place.

9. The monthly meeting for April between SG and CMAL was unable to take place due to sickness of key CMAL staff, however CMAL provided SG with their usual comprehensive monthly progress report. The full CMAL report on progress in March is attached at Annex B. The Ferguson Marine monthly report on progress towards delivery of the vessels is at Annex C.

## **Quality of reporting**

10. CMAL reports that the basis for some of the performance information provided by FMPG is largely generic and does not present the level of detail needed to determine the health of either project. FMPG are continuing to work to improve the metrics in the weekly and monthly progress reports.

11. The Chief Executive shares your views on the importance of robust performance data and the need for this to be available in early course. Improved data and metrics are a keen focus for him. The business' current tracking approach is by system and by zone. They are not presently as able to track overall progress as the Chief Executive would like, but this is improving.

12. Mr McKee is meeting with the Chief Executive on 29 April 2022 for a further discussion on data and how this might be improved.

## **Financial Reporting and Assurance**

13. In the FMPG update to the Net Zero, Energy and Transport Committee on 23 March 2022 FMPG noted the revised costs to complete the vessels 801/802 as a result of the revised delivery schedule.

14. For 801 total costs are expected to be between £58-59m and £61-63m for 802. This is an additional £8.7m cost to the previous range of £110.3-£114.3m. The additional cost is split £4m for overheads, £4.7m for labour and materials and £825k for the legacy cabling issue.

15. SG officials are working closely with FMPG to gain financial assurance over the extra costs to complete vessels 801/802. Work is underway to assess the appropriateness of the assumptions underpinning the labour and material profiles, including the norm performance assumed in the new cost estimate vs the norm performance achieved to date.

16. SG officials are meeting with the planning and programme teams of FMPG to test the assumptions behind the new estimates and the labour and materials profiles to deliver vessel 801/802.

17. Officials do not yet have a profile of costs for the delivery of 801/802 and how this ties to key milestones and the programme for delivery. This will be key for SG (and FMPG) to track progress of the vessels to ensure we are able to identify and highlight slippage and potential cost over-runs early. This information is expected to be ready by the end of May 2022.

## **Stakeholder relationships and engagement**

18. The arrival of the new Chief Executive at the yard, and his inclusive and consultative style of leadership engagement, is having a positive impact on working relationships between Ferguson Marine and CMAL. The Chief Executive continues to show willingness to engage with CMAL and maximise the value of their knowledge

and understanding of the yard, and the ferries. This is evidenced by the decision to have a secondee from CMAL [Redacted] join his senior management team as Project Director. We understand this change has brought positive energy to the yard.

19. A new management and leadership ethos is being instilled in the business by the Chief Executive, including encouragement for mutual challenge. Our anecdotal understanding is that this change in approach is being welcomed.

20. Nine MSPs visited the yard on 4 April 2022 and the CEO reported that the visit went well. [Redacted] MSP also separately visited on 25 April 2022.

21. The Permanent Secretary visited Ferguson Marine on 22 April 2022, meeting with the Chief Executive and his senior management team, and undertaking a tour of the yard and the vessels. The purpose of this visit was to build relationships and gain assurance on the progress towards delivery of the vessels. A short note of this meeting is at Annex A.

22. On [Redacted], the Cabinet Secretary will visit the yard for a deep dive session with the FMPG Senior Management Team. A tour of the yard and the vessels will also be undertaken.

23. It has been agreed by the Cabinet Secretary that it is more appropriate to hold the established regular meetings between Economy Ministers and Ferguson Marine every four weeks instead of fortnightly. The next meeting is scheduled for 16 May 2022; the next meeting with the Chair and CEO (6 weekly cycle) is on 29 June 2022.

### Next steps

24. In terms of next steps, Ferguson Marine's priorities are:

- Continue to support new CEO into role.
- Conclusion of the re-baseline programme for delivery of the vessels in consultation with CMAL.
- Improving the metrics in the weekly and monthly progress reports. This is a personal priority for the Chief Executive, who understands the priority which you place on this work.
- FMPG Board will meet on 28<sup>th</sup> April for a 'deep dive' working session to review progress on the above noted bullet points and review overall progress against the revised programme, and of the cost assurance exercise.
- The FMPG Board will also run a session to ensure that 'lessons learned' from the Audit Scotland report, "*New Vessels for the Clyde and Hebrides*" are noted and adopted.
- Development of a strategic plan to consider options beyond 801/802.
- Develop optional arrangements for retention of core workforce.
- Ensure the workforce Communications Plan is delivered as intended.
- Confirmation and induction/integration of new non-executive board members.

25. In addition to core business as usual activity in supporting Ferguson Marine 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:

- Ongoing engagement with Ferguson Marine Chief Financial Officer to provide more robust scrutiny of the costs associated with the updated schedule as well as monitor spend against projected costs.
- Supporting the work to improve the metrics in the yard’s weekly and monthly progress reports.
- Establishing funding and procurement route for the consultancy work required to establish the nature and cost of the capital upgrades required to bring the yard to a position of competitiveness.
- Continue to work closely with Ferguson Marine finance, planning and programme teams to gain financial assurance over the additional cost to complete vessels 801 and 802 and map these costs to the programme for delivery.

**Conclusion**

26. Ministers are asked to note:
- the content of this update;
  - Ferguson Marine’s visible shift to a more commercially oriented, proactive leadership style of working under the direction of the new management team;
  - ongoing work to gain financial assurance over the extra costs to complete vessels 801/802 and planned next steps.

**Mo Rooney**  
**Strategic Industrial Assets Division**  
 28 April 2022

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  
 [Redacted]

Frances Pacitti  
 [Redacted]

[Redacted]

**ANNEX A – Permanent Secretary’s visit to Ferguson Marine (22 April 2022):  
Key points**

- separate document

**ANNEX B – CMAL MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY  
OF 801 AND 802– MARCH 2022**

- separate document

**ANNEX C – FMPG MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY  
OF 801 AND 802– MARCH 2022**

- separate document