

Kate Hall
Strategic Commercial Assets Division
11 January 2023

Deputy First Minister and Cabinet Secretary for Covid Recovery
Minister for Business, Trade, Tourism, and Enterprise
Minister for Transport

Ferguson Marine - Ferries 801 and 802 - Progress Update: September 2022

Purpose:

1. The purpose of this submission is to update Ministers on progress towards the delivery of ferries 801 and 802 based on the September 2022 reports from both Ferguson Marine Port Glasgow Ltd. (FMPG), and Caledonian Maritime Assets Ltd. (CMAL).
2. Ministers should note that these reports were prepared by CMAL, and FMPG in September and some information will have been superseded given the build has continued to progress since that time. The commentary therefore reflects the information in the September 2022 report to ensure a clear public record and chronology.

Headlines:

- The yard's senior management are closely monitoring the electrical programme due to slippage to meet priority dates for main commissioning activities;
- The capacity for main equipment suppliers to mobilise resources to meet the yard's planning dates for commissioning activities is on the critical path;
- There are still a significant number of Owners Observation Reports (OOR's) to resolve at this stage in the build. This remains under the scrutiny of senior management at FMPG and CMAL;
- Ongoing design changes and legacy issues are still affecting the constructability of the vessels. CMAL are now assisting daily in the design process due to poor legacy design;
- Closure of final design gaps is needed - which at this late stage of the project remains a significant risk to the project;
- Installation of pipework spools is behind schedule. The rate of installation needs to be increased to meet planned completion dates.

Background

3. This monthly update reflects on the progress towards the delivery of vessels 801 and 802 made in September 2022. Officials meet with CMAL on a weekly basis to discuss progress, with the monthly update meeting held on 18 October 2022 to discuss progress made in September 2022.
4. The Chair of the Board of Directors of Ferguson Marine is aware of the content of this monthly performance update and agrees with the position presented.

Overview of progress in September 2022

5. The main points to note from the CMAL report on **801** are:
- Slippage in the electrical programme is being monitored by senior management, as on current trends, priority dates for commissioning will be missed,
 - Senior management are monitoring the capacity of the main equipment suppliers to mobilise resources to meet the yards commissioning dates;
 - There are significant OORs and design office queries still to be resolved;
 - The main drive for work onboard is the “hot work” completion and commissioning;
 - 801 is making progress towards its objectives but commissioning is behind schedule in the majority of areas.

The main points from CMAL on **802** are:

- The 802 programme has been reviewed recently;
- The main subcontractors have yet to start their work on 802;
- Structural works continue in several areas;
- All 5 deck units now onboard with unit linkups well underway;
- Initial fit up now complete for the port and starboard ‘A’ frame brackets.

Key challenges around 801 are:

- Installation and termination of the ship’s cables - particularly in line with commissioning;
- Completion of pipework to meet commissioning dates, including addressing pipe clashes;
- Close out of OORs;
- Closure of design gaps;
- Unknown and emerging rework;
- Delivery and completion of production drawings and accuracy of production drawings;
- Availability of experienced supervisors and managers;
- Shortage of key trades;
- Availability of [Redacted] for commissioning engineers;
- Coordination of multiple activities in busy compartments such as the engine room;
- Availability of materials;
- Verify Hull 801 Deadweight.
- Commissioning of LNG System;
- Lack of familiarity with final stages of finishing the vessels - surveys, documentation and certification.

Progress reporting

6. CMAL and FMPG are continuing to progress a joined-up approach to reporting, in line with the recommendations of Audit Scotland. This again reflects the closer working relationship of CMAL and FMPG.
7. This collaborative working is ensuring that both parties are agreed on the challenges and are working to secure mitigations.

Financial Reporting and Assurance

8. To 30 September 2022, c£ 73.4m has been spent on 801 and c£36.1m on 802, since public ownership.
9. Financial assurance over the costs to complete was conducted by the FMPG Senior Management Team (SMT) and reviewed during the FMPG Board meeting on 22 September. FMPG CEO wrote to NZET committee on 28 September 2022 to inform the Committee that his estimate of the cost to complete both vessels had risen from the £122m communicated in March 2022 to £202.6m (the latest cost estimate includes a contingency of £6.2m). This is an increase of £80.6 million. FMPG have also increased the warranty provision from the £3.5m set out in the CEO's March update to the NZET Committee to £7m for 801 and 802.
10. The CEO has confirmed the target for completion of Glen Sannox remains May 2023, with Liquefied Natural Gas (LNG) commissioning in May 2023. He also reiterated his August assessment that 802 will reach practical completion by December 2023 with operational readiness complete by end March 2024. No change to delivery dates has yet been agreed and we continue to press for FMPG to meet the existing schedule.
11. Scottish Ministers have instructed an external commercial advisor to complete a detailed due diligence over the cost increases and test the assumptions underpinning the revised cost estimates. This assurance work is ongoing.

Relationships and engagement

12. A series of regular calls between the Deputy First Minister, and FMPG has been organised.

Next steps

13. In terms of next steps, FMPG's priorities are:
 - Continuing to improve the metrics in the weekly, and monthly progress reports;
 - Continued assessment of the planning figures for delivery of Hull 802;
 - Continued discussions around commercial partnership opportunities;
 - Ongoing financial assurance work;
 - Validation of the weight of hull 801;

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- Monitoring and reporting on the new programme with [Redacted] on Cable installation.

14. In addition to supporting FMPG to deliver the vessels in our capacity as shareholder, the key next steps for officials are:

- The recruitment of a new permanent Chair for the Board of Directors of FMPG (Noting that the interim Chair's appointment has been extended until end of October 2022);
- Continuing to support work to improve the metrics in the yard's weekly and monthly progress reports and to ensure that reporting links spend to delivery of individual work packages and performance targets;
- Continuing to work closely with FMPG's finance, planning and programme teams on financial assurance around the completion of vessels 801 and 802;
- Ongoing engagement to scrutinise the costs associated with delivery, and monitoring spend against projected costs;
- Continuing to progress the consultancy work to establish the nature, and cost of the capital upgrades required to improve the yard's competitiveness.

Conclusion

15. Ministers are asked to note the content of this update.

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11 January 2023

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

Permanent Secretary
 DG Economy
 Chief Executive Transport Scotland
 Director Economic Development
 Kate Hall
 [Redacted]
 Alistair Paddison
 [Redacted]
 [Redacted]
 [Redacted]
 Frances Pacitti
 [Redacted]
 [Redacted]
 [Redacted]
 [Redacted]
 Leanne Dobson
 John MacFarlane
 Kate Higgins
 [Redacted]
 [Redacted]
 Comms Finance and Economy
 Comms Transport Scotland

ANNEX A – CMAL MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY OF 801 AND 802 – September 2022

- separate document

ANNEX B – FMPG MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY OF 801 AND 802 – September 2022

- separate document