

Mo Rooney
Strategic Commercial Interventions Division
27 January 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: December 2021

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

Headlines:

- Ferguson Marine (FMPG) have produced a new delivery plan for vessels 801 and 802. SG, CMAL and the Fergusons team discussed the plan on 9 Dec. CMAL identified concerns with the plan; FMPG are considering these.
- A key emerging issue is how FMPG will deal with the outstanding OORs (Owners Observations Reports). CMAL and FMPG remain in discussion.
- Objective information on progress towards delivery has improved, but CMAL consider the basis for some of the information to be questionable.
- Advice from CMAL is that progress on 801 remains slow. There is significant programme slippage and high level progress milestones have been missed. There continues to be out of sequence working. CMAL advise that it is unlikely that the yard will deliver the vessel within the scheduled delivery window. Ferguson Marine remain of the view that mid-window delivery, whilst challenging, is still possible and are still working to that objective.
- Progress on 802 is slow but current expectation is that 802 could be delivered within the published delivery window. Delay to 801 could make this problematic.

Background

1. The Turnaround Director of Ferguson Marine wrote to the Net Zero, Energy and Transport Committee on 23 Dec 2021 to provide a quarterly update. The Turnaround Director's update confirmed the schedule for delivery of the vessels remains challenging. The delivery of 801 remains scheduled for July-Sept 2022 and 802 for April-July 2023. The update highlighted progress with pipe installation and the ducktail as 2 new issues.

2. The FMPG Board reviewed, discussed and agreed the substance of the update. The Board made 3 observations:

- a) Delivery of 801 in the time window is achievable but remains challenging. The planned increase in production activity in January and February is critical to the achievement of this delivery schedule.
- b) The progression of the Omicron variant has the potential to cause severe disruption at a critical time, but this could not be quantified at the time of the

update.

- c) Much of the equipment for the ferries has been installed since 2016 and may have deteriorated since then. Although surveys, remediation and replacement have taken place under Government ownership, there is an unquantifiable risk that equipment problems may emerge during commissioning of the vessels.

3. The next formal update to the Net Zero, Energy and Transport Committee is due by end March 2022.

4. 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

5. Progress in December remains slow and behind expectations. Given the limited level of progress achieved, CMAL continue to be of the view that it is difficult to see how Ferguson Marine can deliver 801 by September 2022. CMAL report that there is little evidence of the planned ramping up of activity in January and February, identified by FMPG as critical delivery in line with the current schedule. Ferguson Marine however maintain a level of confidence that delivery within the scheduled delivery window is achievable. Latest updates from FMPG suggest that a higher than forecast number of working hours are being achieved in January.

6. Attached at Annex A is the monthly report provided by CMAL to Strategic Commercial Interventions Division which details CMAL's evaluation of progress and days lost against the programme for delivery of the vessels.

7. As set in out in previous monthly progress reports, CMAL consider weaknesses in the planning of the build to remain a key issue, with out of sequence working a consequence of this. The FMPG Board does not share this view.

Different views of FMPG and CMAL on deliverability of schedule

8. As you are aware, Ferguson Marine were in the latter part of 2021 implementing a planning improvement programme. A key output from this work was to be, and has been, improved performance data, allowing more objective assessment of progress towards delivery of the vessels by the Ferguson Marine Board and others. As you are also aware from previous updates, CMAL do not share Ferguson Marine's confidence in the deliverability of the ferries in line with the current schedule. We have been working with the businesses for some time to support them in mediating their differences of opinion. Ferguson Marine were confident that the availability of improved progress data from December 2021 would mitigate CMAL's concerns. The December report provided to us by CMAL (Annex A), and our discussions with them on this report, suggest that CMAL's concerns have been reinforced by the additional information that they are now able to access.

9. Ministers will wish to note that the differences of opinion which exist between Ferguson Marine and CMAL as regards deliverability on schedule are now stark, with both businesses considering their positions to be evidence based. The positions of the businesses appear to be increasingly divergent. This position comes at a challenging time, as Ferguson Marine welcomes a permanent Chief Executive on 1 Feb, with the Turnaround Director leaving the business on 11 Feb.

10. The CMAL/Ferguson Marine Board to Board meeting planned for 15 Feb presents an important opportunity for a strategic discussion between the businesses on their differences of opinion and agreement on next steps. You have already asked that the Ferguson Marine Board provide you with a briefing in short order after this meeting. This was on the back of the assurance which you sought from the Chair of the Ferguson Marine Board, when you met with him on 17 Jan, that the Board is listening to the concerns of CMAL and, where appropriate, acting on those. You may wish to ask that the Board to Board meeting specifically seek to mediate the differences between the positions of the businesses on deliverability of the schedule and report back to you on this.

11. In follow up to the meeting on 15 Feb, and subsequent briefing to you by the Ferguson Marine Board, we will provide you with advice on proposed next steps and action which you may wish to take.

Quality of reporting

12. There have been some improvements to the yard's progress reporting, though issues still remain. CMAL have suggested that the focus of the discussion on progress with the build should move to a "key area and issues" approach which would focus on the key areas of the vessel where progress needs to be made. Ferguson Marine are considering this approach.

Financial Reporting

13. FMPG remain confident that vessels 801 and 802 will be delivered within the budgeted costs range of £110m – £114.3m. Officials, including SG Finance, continue to review the cost position by monitoring and constructively challenging the monthly costs incurred by FMPG. The costs are also reviewed by CMAL who are on site to witness the work undertaken each month by FMPG and the progress of the vessels. At this stage it is not possible to measure the costs incurred against the progress of the vessels as we do not have sight of a detailed plan to scrutinise the spend against production. Without a detailed plan we can only monitor costs against the budget however cannot mark this against the progress of the vessels.

14. CMAL have raised concerns around the progress of the vessels and highlight their lack of confidence in the most recent delivery dates proposed by FMPG as well as FMPG's ability to deliver within budget. Any delay to delivery will impact the overall cost of delivering the vessels. FMPG have fixed overhead costs that could drive up the costs to complete the vessels with any delay past the current delivery window.

15. FMPG provided monthly projections detailing spend on 801 and 802 for the year to 31 March 2022. Currently the workforce and costs are focussed on work to vessel 801, which is to be expected given the drive to complete 801 by September 2022. However this does not align to the costs projections provided by FMPG to the split of costs for 801 and 802. Officials are in discussion with Ferguson Marine on this.

Stakeholder relationships and engagement

16. While both Ferguson Marine and CMAL continue to value their relationship, the divergence of views on delivery and the lack of movement on OORs is creating tension. The Board to Board meeting on 15 February will provide an opportunity to address some of these issues.

17. As agreed with the Cabinet Secretary, regular meetings between Economy Ministers and Ferguson Marine management 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.

Board commentary on progress, challenges and next steps

18. Three Non-Executive Directors with shipbuilding experience attended the yard on 7 Dec to review the status of 801. The Non-Executives reported that, whilst a number of challenges remain, it is still appropriate to support, and focus towards, the programme delivery as published (July-September 2022). A follow up inspection of 801 will be undertaken on 10 Feb by FMPG non-executives and after which their view on progress will be available.

19. The appointment of a new Planning Manager is seen by the Board to have delivered a notable and significant improvement. There is pressure on the availability of planners and attrition rate is high with individuals leaving for significantly higher salaries. Recruitment of replacements is an ongoing challenge.

20. A further detailed review of progress will take place at the FMPG Board meeting on 27 Jan and working review meeting (with outgoing Turnaround Director and incoming Chief Executive Officer) on 10 Feb to coincide with the Non-Executive Directors' inspection of 801.

21. The new CEO, David Tydeman, will take up his role on 1 Feb and will join the 27 Jan Board meeting as an observer. [redacted]

He has been introduced to the Executive team at FMPG and has had two visits to the yard following completion of his recruitment.

Next steps

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

- Smooth transition to a new Chief Executive (from 1 Feb)

- Outgoing/incoming review with Turnaround Director and new CEO (and Board)
- Monitor ramp up of resources in January/February
- A constructive Board to Board meeting with CMAL on 15 Feb
- Finalisation of the vessels commissioning plan.

23. 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:

- Support to transition from Turnaround Director to new Chief Executive
- Ongoing engagement with FMPG Chief Financial Officer to monitor spend against projected costs.
- Advice to Ministers on next steps following Board to Board meeting.

Conclusion

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

25. If the Minister for Transport would like to discuss this update with officials, or indeed would welcome an introductory briefing on Ferguson Marine, 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			X		
Minister for Transport			X		
Minister for Business, Trade, Tourism and Enterprise					X

DG Economy
Chief Executive Transport Scotland
Director for Covid Business Resilience and Support
Mo Rooney
[redacted]
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Frances Pacitti
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ANNEX A – CMAL MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY OF 801 AND 801 (separate PDF document)