

Mo Rooney
Strategic Commercial Interventions Division
8 June 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: April 2022

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

Headlines:

- The Executive Summary of monthly report received to Scottish Government from CMAL is in broad alignment with the monthly performance report received from FMPG. This reflects positive working relationships and the current culture of openness and collaboration.
- The shift to a more commercially oriented, proactive leadership style of working under the direction of the new management team continues to be visible in work priorities.
- CMAL believe the yard and the build are heading in the right direction, and report performance improvements in key disciplines.
- FMPG and CMAL both consider the schedule to be deliverable.

Background

1. This monthly update reflects on progress made towards the delivery of vessels 801 and 802 in April 2022.
2. 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 April 2022

1. CMAL's report reflects positively on the direction of travel in the yard, with indications of performance improvement in certain disciplines. They note that commissioning and architectural outfitting programmes are being developed by the yard, with realistic task durations, interdependencies identified, and achievable completion dates.
2. Production output continues to increase, installation is being delivered in line with the relevant coordination designs, and construction standards are being reinstated. The completion of background works, in support of the commissioning process, is identified as a key challenge.
3. CMAL notes that 'considerable progress' has been made in the initial testing and verification of the principal switchboards with early indications that the equipment remains serviceable.

4. The completion date for the main sea water cooling system was met in line with the schedule. FMPG's design, procurement, and production teams, and third-party installation contractors have confirmed the scheduled dates to complete the remaining ten systems as achievable.
5. Discussions are ongoing between FMPG and CMAL as to resolution of the outstanding Owner's Observation Reports. Both parties expect progressive solutions to be found to all OORs, and CMAL's report notes a reduction in number of open OORs from the previous month (March 2022).
6. There is now a shared understanding between all partners of the remaining design challenges following a collaborative session with the yard's design contractor, [redacted]. A sufficiently mature construction design freeze has not yet been achieved, and is a focus for the yard.

Progress reporting

7. CMAL and FMPG are in discussion on how best to deliver a more joined-up approach to reporting on progress towards delivery of the vessels. Officials have emphasised that we are keen to retain the clarity of the feedback we receive from CMAL, but we recognise the value of streamlining the current approach to reporting given the increased joint working and alignment of perspectives on risks, challenges and progress between the CMAL and FMPG teams.
8. The FMPG performance report is now close to its final intended form. CMAL and FMPG are working towards providing us with a more joined-up report from July (reporting on progress in June) onwards.

Financial Reporting and Assurance

9. FMPG remain confident in the programme for delivery and are working to develop and refine the assumptions underlying the costs to complete the vessels in line with the schedule. Financial assurance from FMPG was expected by 31 May 2022.
10. In line with the 31 May deadline, the FMPG CEO provided an updated position on the financial assurance work being undertaken by FMPG but needs to undertake further due diligence work to be able to provide full assurance on the costs to complete. This will involve negotiations with sub-contractors.
11. Discussions are ongoing between FMPG and key subcontractors over the revised programme for delivery and costs relating: these are still in a negotiation stage.
12. To 31 March 2022, c£56.5m has been spent on 801 since public ownership and c£25m on 802. Work is ongoing to scrutinise and challenge the cost to complete for each vessel and is dependent upon the wider outstanding financial assurance work.

Relationships and engagement

13. The Cabinet Secretary's next monthly meeting with the CEO will take place on 27th June; the next meeting with the Chair and CEO (6 weekly cycle) is currently being rescheduled due to diary clashes.

14. The arrival of the new Chief Executive at the yard, and his inclusive and consultative style of leadership engagement continues to have a positive impact on working relationships. Relationships with the trades union representatives remain good.

15. The FMPG team undertook a tripartite session with CMAL and ^[redacted] to identify and seek to resolve remaining design issues on 801, and ensure the learning of lessons from 801 in the finalisation of the design work on 802. All parties were of the view that this was a helpful discussion which has allowed for progress to be made. This progress will continue.

Board of Directors

16. A Board Deep Dive meeting on 28th April explored progress in health and safety improvements, reviewed the ongoing financial assurance work, and considered the lessons to be learned from the Audit Scotland Report.

17. There was a consensus view that progress was being made on all of the areas identified in the Audit Scotland Report that applied to FMPG. Officials will continue to press for progress on the Audit Scotland recommendations, and will support the business in those where we can.

18. The two new Board members appointed at the beginning of May (^[redacted] shipbuilding and legal expertise respectively) joined the Board meeting which took place on 26th May 2022. The Chair was able to provide face-to-face inductions. Both new members have held discussions with the new Chief Executive and identified areas where they will be able to provide constructive support.

19. A key topic of discussion at the May Board meeting was the future strategy for the business, which will inform the work ongoing to develop a strategic plan for the business beyond delivery of 801 and 802.

20. The ongoing financial assurance work was also considered at the end May Board meeting, in order to develop the understanding of those variables with the greatest risk of a cost overrun. [redacted]

It is likely there will be more flexibility in relation to 802 as greater control is applied to the build strategy.

Next steps

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

- Continuing to improve the metrics in the weekly and monthly progress reports. This has been a continuous request from the Board and is a personal priority for the Chief Executive.

- To continue to drive the delivery of the vessels in line with the schedule.
- Completion of the financial assurance work as an urgent priority.
- Development of a strategic plan for the business by end Sept 2022. Progress was made on this at the at the May Board meeting.
- Develop optional arrangements for retention of core workforce.
- Ensure the workforce Communications Plan is delivered as intended.
- Ongoing induction/integration of new non-executive board members.

22. 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 continue to be:

- Supporting the work to improve the metrics in the yard’s weekly and monthly progress reports.
- Progression of the procurement process for the consultancy work required to establish the nature and cost of the capital upgrades required to improve the yard’s 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.
- Ongoing engagement to scrutinise the costs associated with the updated schedule and monitor spend against projected costs.

Conclusion

23. Ministers are asked to note:

- the content of this update;
- ongoing work to gain financial assurance over the extra costs to complete vessels 801/802 and planned next steps.

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 8 June 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 |

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| DG Economy Chief Executive Transport Scotland Director for Covid Business Resilience and Support Mo Rooney [redacted] |
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Comms Finance and Economy
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ANNEX A – CMAL MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY OF 801 AND 802 – APRIL 2022

- separate document

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

- separate document