

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: May 2022

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

Headlines:

- CMAL are of the view that the yard, and the build of vessels 801 and 802, are progressing and that there is continuing improvement.
- CMAL consider the dry docking of 801 in August to be a key juncture in the delivery programme. Preparations for the dry docking are well-advanced.
- FMPG and CMAL continue to consider the delivery schedule to be achievable.
- 801 was successfully turned in her berth to improve access to work areas.
- Finding solutions to OORs (Owners Observation Reports) remains a priority for FMPG, working in close partnership with CMAL.

Background

1. This monthly update reflects on the progress towards the delivery of vessels 801 and 802 made in May 2022.
2. The Chair of the Board of Directors of Ferguson Marine is aware of the content of this monthly performance update and is in agreement with the position presented.
3. As you are aware, the monthly report from CMAL on progress in April 2022 was delayed due to CMAL resourcing constraints and the impact of the May/early June public holidays. We received the report on 7 June. Given its timing, CMAL used that report to provide an update on progress in both April and May. Officials met with CMAL on 21 June to reflect on the progress made on the vessels in May specifically, and the most current position.

Overview of progress in May 2022

4. CMAL and FMPG both note that the commissioning process continues to progress. The relevant external contractor is completing checks on the switchboard, and shore power has been connected to the vessel. To continue progress on commissioning 801, background works, such as the completion of hot work, pipework and cabling, remain key.

5. FMPG remain focussed on ensuring that change is properly managed, work is appropriately sequenced, and that the OORs are resolved. This work is progressing well in partnership with CMAL.

6. A draft Build Strategy is now in place for 802. Funnel units 97, 98, 99 and 100 are being outfitted in manufacturing sheds and FMPG believes there is now sufficient manpower in the manufacturing sheds and on ship. Work continues on a finalised design, learning lessons from 801.

7. As updated to you last month, production output continues to increase. Installation is being delivered in line with the relevant coordination designs, and construction standards are being reinstated.

8. CMAL notes that FMPG continues to improve its performance and is on a positive trajectory.

Progress reporting

9. CMAL and FMPG are progressing a more joined-up approach to their reporting, in line with the recommendations of Audit Scotland and in recognition of their increasingly aligned position on progress towards delivery of the vessels. This reflects their close working relationship. We are keen to ensure that, with CMAL our professional advisors on progress on the vessels, we do not lose any of the value of their clear and constructive challenge and honest reflections on progress and risks.

10. We had previously indicated to you that we would be in receipt of more joined-up reports with effect from July (reflecting on progress in June). CMAL have confirmed that this approach would be better timed to commence after the planned dry docking of 801 (15 July to 7 Aug 2022) as this will be a key juncture in terms of reducing uncertainty. We will continue to meet with CMAL in line with our established monthly review cycle throughout.

Financial Reporting and Assurance

11. FMPG remain confident in the schedule for delivery and are working to develop and refine the assumptions underlying the costs to complete the vessels in line with the revised schedule. FMPG is working to identify all the work scope challenges on both vessels and will undertake further due diligence work to be able to provide assurance on the costs to complete.

12. As part of this process, FMPG is undertaking a detailed review of the scope of work for each of its key subcontractors. Discussions are ongoing over the revised programme for delivery and associated costs: these are still in a negotiation stage.

13. To 31 May 2022, c£60m has been spent on 801 since public ownership and c£29m on 802. Work is ongoing to scrutinise and challenge the cost to complete for each vessel and this is dependent upon the wider outstanding financial assurance work.

Relationships and engagement

14. The relationship between CMAL and FMPG is strong and productive. Delivery responsibility of course remains fully with FMPG, but FMPG management and the Board welcome the support being received from CMAL.

15. Private Office has plans in place to continue the monthly cycle of meetings between the Cabinet Secretary and FMPG management. The Minister for Transport intends to visit the yard on 10 Aug and a series of ministerial visits to the yard is also in development.

16. Relationships with the trades union representatives remain good.

17. Work continues between FMPG, CMAL and ^[redacted] (FMPG's design partner) to identify and resolve any remaining design issues on 801, and to ensure the learning of lessons from 801 in the finalisation of the design work on 802. Progress is continuing.

Next steps

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

- Continuing to improve the metrics in the weekly and monthly progress reports.
- Full assessment of the planning figures for 802
- Discussions around commercial partnership opportunities
- Completion of financial assurance work.

19. 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:

- Continue to support the work to improve the metrics in the yard's weekly and monthly progress reports.
- Conclusion 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

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

Mo Rooney
Strategic Commercial Interventions Division
29 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

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

- separate document

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

- separate document