

FERGUSON MARINE PORT GLASGOW – UPDATE
OFFICIAL SENSITIVE - COMMERCIAL

From: [REDACTED]

Strategic Commercial Assets Division
13 July 2023

FIRST MINISTER
DEPUTY FIRST MINISTER
CABINET SECRETARY FOR WELLBEING ECONOMY, FAIR WORK AND ENERGY

Ferguson Marine Port Glasgow (FMPG)– UPDATE

Priority and Purpose

1. **Immediate.** This submission is to update DFM and the Cabinet Secretary on current challenges and progress towards delivery of Hull 801 (Glen Sannox) and Hull 802.

Recommendation

2. Note that as advised to Ministers and set out by the FMPG CEO in his June update and by CMAL, the delivery schedule for Hull 801 continues to experience slippage which in turn will have impacts on progress on Hull 802. The FMPG CFO and CEO continue to review overall costs to complete but have signalled upward pressures at this stage of around [REDACTED] (consistent with our recent due diligence),
3. This submission provides an update on an interim basis but we await further details and analysis from FMPG. Officials continue to engage with FMPG on the delivery on a weekly basis to establish the extent of cost impact and delay to build, and we will provide a further update as part of the briefing for the next FMPG Board meeting on 27th July, and in advance of that if new information emerges.

Context and Issues

4. The CEO of FMPG wrote on 30th June 2023, giving the quarterly update on delivery of the hulls to the NZET Committee. Advice was provided to Ministers at the time and the Cabinet Secretary also wrote to the Committee expressing concern and disappointment at the CEOs information. The CEOs letter set out that the timeline for delivery of Hull 801, which had been agreed with Ministers as end December 2023, would now prove challenging.
5. Further engagement with Caledonian Maritime Assets Ltd (CMAL), who are also reviewing progress towards delivery indicates that they consider that a Spring 2024 delivery date for Hull 801 is now more realistic. The CEO of CMAL Kevin Hobbs was quoted in a recent Scotsman article as expecting delivery in January or February 2024.
6. Officials continue to engage with FMPG to both understand their full current assessment of the timeline for delivery and whether this has now changed from the CEO's update to the NZET Committee on 30 June. We have undertaken a

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series of assessments in the past 10 days with FMPG of the work in hand, including a deep dive on 5 July into the risks around completion of both vessels. A summary of key points is set out below.

Hull 801 key issues

7. **Compliance with Maritime and Coastguard Authority (MCA) requirements for safe evacuation of passengers:** Ministers have been briefed previously on the issue with Maritime and Coastguard Agency, (MCA) certification for vessel compliance. The passenger evacuation from Decks 6 & 7 which had originally been designed was not considered sufficient by the MCA, as it utilised corridors which were for the exclusive use of crew, and therefore did not meet the minimum width requirements for passenger use.
8. FMPG initially proposed a solution requiring the installation of escape chutes to Deck 7 but this was not considered acceptable by MCA. A further proposed solution which requires the installation of further internal stairwells from levels 6 & 7 has been submitted to the MCA, and they are still to confirm whether this meets the requirements for certification. We expect a decision from the MCA by the end of July, possibly in advance of the board meeting of 27th July and the Cabinet Secretary's visit on the same day.
9. FMPG advise that it now seems likely that the solution will require loss of some passenger capacity, [REDACTED] passengers. Once a resolution has been reached, we want to consider their response to any request from the CEO to a variation on the contract to reflect both potentially vessel capacity and delivery date. We will provide further advice at that time. We have advised the CEO of this.
10. Others risks currently identified and reported to SG on 5 July risk deep dive include potential delays due to changed dates for dry docking, cost impacts from contractor cost increases due to extensive rework requirements and the potential need for further procurement for parts due to obsolescence of older items.
11. We have asked FMPG to set out the extent to which any of these costs and timing impacts go beyond this set out by the CEO in his June update and will provide further advice before the Cabinet Secretary's visit on 27 July.

Hull 802 update

12. FMPG are currently undertaking a full review of the programme and project delivery dates, to inject more pace into the build and provide increased assurance and accountability. Work to develop this program is ongoing and we have asked FMPG to provide a monthly update to SG on progress to concluding this.
13. The CEO remains optimistic that the hull will be delivered within the agreed cost to completion of £105.1 million. This is not consistent with our recent due diligence work and CMAL are sceptical about the achievability of the current contracted end of December 2024 delivery date and think there could be further

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slippage of up to 12 months. This is yet to be verified and we are seeking urgent clarification from FMPG.

14. Other challenges reported result from material and equipment purchased for 802 being used on Hull 801, requiring additional purchases for this build and the risk that MCA will be less tolerant on compliance issues for the second vessel.

Bute House Agreement Implications

15. There are no Bute House implications

Financial and Legal Considerations

16. The current indications from the CEO are that both hulls are subject to upward cost pressures of around £20m. The CEO has said he will provide a further estimate, and we will continue to press for this in time for the Board meeting on 27 July. Any further budget will need to be agreed as part of the Scottish Government budget of 2024-25.
17. The projected shortfall due to the need for budget into the 24-25 financial year has also impacted the need for a Letter of Comfort from SG to FMPG (submission of 13 July 2023 refers) to ensure FMPG Directors can be satisfied of the organisations going concern status for the 23-23 Annual accounts.
18. It remains unclear whether the CEO will assess a further in year funding requirement for 23-24. We continue to press FMPG to ensure that they are taking all actions possible to identify and act on risks and provide higher levels of assurance on their cost estimates and management of the budget and have asked for a further report to follow the FMPG Board on 27 July – the date the Cabinet Secretary is also visiting the shipyard.

Sensitivities

19. Cost increases and potential delays to delivery continue to generate high levels of criticism given the continuing public and Parliamentary interest in the delivery of the vessels and ferry services more generally. We continue to remind the CEO and the CFO of the importance of doing all they can to remain on time and on budget and will continue to work closely with them to identify what more they can do to mitigate known and potential risks.

Quality Assurance

20. This Submission has been approved by DG Economy.

Conclusions and next Steps

21. SCAD will continue to work with FMPG to seek to improve their reporting, assurance and oversight processes. We have a senior team member now attending the shipyard weekly, and will hold monthly reviews in addition to the weekly financial monitoring being put in place and weekly CMAL meetings. A

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