

Kate Hall
Strategic Commercial Interventions Division
29 Jul 2022

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: Jun 2022

Purpose: To update Ministers on progress towards the delivery of ferries 801 and 802, challenges, and next steps following the June reports from both FMPG and CMAL.

Headlines:

- CMAL are of the view that the continuing build of vessels 801 and 802, are progressing safely with no major issues identified.
- 801 was on track to be moved to dry dock on 15 July, with the ability to utilise her own power generation for safety and navigational lighting. This achievement will be a major milestone in the commissioning programme.
- Finding solutions to OORs (Owners Observation Reports) remains a priority for FMPG, working in close partnership with CMAL.
- FMPG and CMAL continue to consider the delivery schedule to be achievable. However CMAL have highlighted that the current rate of cable installation presents a serious risk to the project along with the need to continue to close design gaps and make progress on commissioning.

Background

1. This monthly update reflects on the progress towards the delivery of vessels 801, and 802 made in June 2022. Officials met with CMAL on 26 July to discuss progress made on the vessels in June specifically, and the most current position.
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.

Overview of progress in Jun 2022

3. As with previous months, the production output has continued to increase. Indeed CMAL have noted that production output is now higher than at any point it has been in the previous twelve months, this greater efficiency will continue to be monitored to see if it can be sustained.
4. Both CMAL and FMPG have said that commissioning has commenced, and is moving in the right direction. However, CMAL noted that the commissioning work has started slower than planned.

5. CMAL and FMPG conducted a joint review of Owners Observation Reports (OOR's) on Hull 801. This progressed well with significant efforts made to ensure that all issues, and potential impacts on the programme are understood. This highlights the improved working between CMAL and FMGP.

6. As highlighted above, the rate of installation of cable lengths and also pipe spools remains a challenge with low rates against target. This was in part due to the impact of previous design issues, CMAL have noted that the overall reported completion rate should be seen as a significant ongoing risk and monitored accordingly.

7. In June the main focus of work on vessel 801 was on installation of cabling, interior and exterior passenger deck work acceleration, and external scupper drain line installation (which is now complete). Work on background services, installation of architectural panelling, and HVAC ducting installation is also progressing.

8. As highlighted above it had been initially envisioned that when moving the vessels to its first dry dock period on 15 July, an external power supply would have to be used for the safety and navigation lighting. However, accelerated work on the power distribution systems will allow the vessel to generate its own power for the safety and navigation lighting on board. This was the first time that a major milestone in the commissioning programme was reached.

9. The 802 project is moving towards achieving its objectives. The majority of work focus remains structural, higher levels of outfitting await the outcome of the detailed model.

10. CMAL have noted that the frequency of call out inspections on vessel 802, which are used by FMPG to verify completed production, are worryingly low. The call out inspections should be seen as a significant KPI, and now also as a potential risk, as these inspections can be used to highlight the amount of work still to be completed.

11. CMAL also noted that while vessel 802 has been on berth with the remaining hot work associated with the side shell fairing, and shell belting attachment (rubbing strips) being completed. This had been unfinished from the April 2021 milestone.

Progress reporting

12. 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 close working relationship of CMAL and FMPG.

13. By the end of July progress reporting on several areas will be brought into line with mainstream shipbuilding industry standards with routine reports produced on extended 'S' curve detail for pipes, cables and navigation & communication installations.

14. Current planning is still to commence joined up reporting after the completion of the dry dock phase, due to end on 7 Aug. Officials will continue to engage with

CMAL in our scheduled monthly review cycle to gain a good understanding, and reflection on programme progress to date.

Financial Reporting and Assurance

15. FMPG remain confident in the schedule for delivery and are working to develop and refine the assumptions underlying the costs to complete vessels 801 and 802 in line with the revised schedule.

16. FMPG has separated the two vessels in its internal reporting and is treating these as separate programmes at this stage. This allows for more detailed and specific due diligence work to provide assurance on the cost to complete each vessel.

17. As part of this process, FMPG is undertaking a detailed review of the scope of work for each of its key subcontractors and interrogating the man hours of both the direct and subcontract labour required to complete the vessels to the agreed programme. Discussions are ongoing over the revised programme for delivery and associated costs: these are still in a negotiation stage.

18. To 30 June 2022, c£64.2m has been spent on 801 since public ownership and c£30.8m 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

19. Private Office is currently confirming plans for the future cycle of ministerial meetings with FMPG management. These will provide an opportunity to see the substantial progress made to date on the programme, and to build on the positive working relationships with the both Chief Executive, and trade union representatives.

20. Relationships between FMPG and the Unions continue to be good.

Next steps

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

- Complete work required at dry dock, this is due for completion on 07 Aug.
- Mainline commissioning work which is scheduled to begin mid-Aug.
- Design reviews for critical areas are to be completed.
- 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.

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:

- The recruitment of a new Chair for the Board of Directors of Ferguson Marine following the departure of the previous Chair for personal reasons, earlier in 2022.
- Continue to support the work to improve the metrics in the yard's weekly, and monthly progress reports.
- Continue to work closely with Ferguson Marine finance, planning and programme teams in their work on financial assurance over any the completion of vessels 801 and 802, and map these costs to the programme for delivery.
- Ongoing engagement to scrutinise the costs associated with delivery, and monitor spend against projected costs.
- Continue to progress the consultancy work required to establish the nature, and cost of the capital upgrades required to improve the yard's competitiveness.

Conclusion

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

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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

DG Economy
 Chief Executive Transport Scotland
 Director for Covid Business Resilience and Support
 Director Economic Development
 Kate Hall
 Reuben Aitken
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 Frances Pacitti
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 Leanne Dobson
 [redacted]
 Kate Higgins
 [redacted]
 [redacted]
 Comms Finance and Economy
 Comms Transport Scotland

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

- separate document

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

- separate document