

Kate Hall
Strategic Commercial Assets Division
18 October 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: August 2022

Purpose:

1. The purpose of this submission is to update Ministers on progress towards the delivery of ferries 801 and 802 based on the August 2022 reports from both FMPG and CMAL.
2. Ministers should note that these reports were prepared by CMAL and FMPG in Aug and some information will have been superseded given the build has continued to progress since that time. The commentary therefore reflects the information in the August 2022 report to ensure a clear public record and chronology.

Headlines:

- CMAL are of the view that background outfitting, cable installation, pipe installation and pre-commissioning activities remain slow and behind schedule.
- 801 Commissioning has commenced and is improving over time from a slower start than planned.
- The yard has been advised by the propulsion equipment supplier that the Main Engine and Generator turbochargers require upgrade works. Consequently, this adversely impacts the commissioning dates for the “first run” of main propulsion, from October into December.
- Electrical contractor performance remains a concern with the yard reporting for this period as 38% “cables pulled in” against a planned programme attainment level of 93%. The yard and contractor have developed a recovery plan to accelerate installation and align with the delivery of the vessel, which includes increased labour and nightshift working.
- Ongoing design changes are related to outstanding technical queries and previously unidentified works. Closure of final design gaps is needed, which at this late stage of the project remains a significant risk to the project.
- Outstanding Owners’ observation issues and technical design office queries remain under the scrutiny of senior management.

Background

3. This monthly update reflects on the progress towards the delivery of vessels 801, and 802 made in August 2022. Officials meet with CMAL on a weekly basis to discuss progress, with the monthly update meeting held on 20 September to discuss progress made in August 2022.

4. The Chair of the Board of Directors of Ferguson Marine is aware of the content of this monthly performance update and agrees with the position presented.

Overview of progress in August 2022

5. The main points to note from the CMAL report on **801** are:
- The rate of installation of pipework requires to be increased to meet planned completion dates.
 - The rate of installation of cables requires to be increased to meet planned completion dates.
 - 801 commissioning started slow, however this has started to gather pace with the following aspects occurring:
 - Start-up of Main Starting Air Compressors
 - Main Air Receivers charged to 30 Bar.
 - Seawater main crossover pressure tested
 - Emergency generator fuel oil pipework pressure tested, cleaned and flushed
 - Main 415V/230 V Transformers energised
 - Emergency 415V/230 V Transformers energised
 - Alarm and Monitoring System UPS energised x 2
 - 24V DC UPS energised x 2
 - One of the suppliers for the propulsion equipment has indicated that the Engine and Generator turbochargers require upgrade works.

The main points from CMAL on **802** are:

- The programme for 802 remains under review by the FMPG senior management team.
- There are several challenges to meet the programme, which are recognised by the yard.
- Installation of pipework spools is behind schedule with the rate of installation of pipework requiring to be increased to meet planned completion dates.

Key challenges around 801 are:

- Installation and termination of the ship's cables.
- Completion of pipework to meet commissioning dates, including addressing pipe clashes.
- Close out of OORs.
- Closure of design gaps.
- Rework.
- Delivery and completion of production drawings and accuracy of production drawings.
- Availability of experienced supervisors.
- Shortage of experience trades.
- Availability of OEM commissioning engineers.
- Coordination of multiple activities in the engine rooms.
- Availability of materials.

- Verify Hull 801 Deadweight.
- Commissioning of LNG System.
- Further familiarity with final stages of finishing the vessels, surveys, documentation, certification required.

Progress reporting

6. 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 closer working relationship of CMAL and FMPG.

7. This collaborative working is ensuring that both parties are agreed on the challenges and are working to secure mitigations.

Financial Reporting and Assurance

8. To 31 Aug 2022, c£69.5m had been spent on 801 since public ownership and c£33.4m on 802.

9. Financial assurance over the costs to complete was conducted the by Ferguson Marine Port Glasgow (FMPG) Senior Management Team (SMT) and reviewed during the FMPG Board meeting on 22 September. FMPG CEO wrote to NZET committee on 28 September 2022 to inform the Committee that his estimate of the cost to complete both vessels had risen from the £122m communicated to the NZET committee in March 2022 to £202.6m (the latest cost estimate includes a contingency of £6.2m). This is an increase of £80.6 million since the March 2022 letter. FMPG have also increased the warranty provision from £3.5m set out in the CEO's March update to the NZET Committee to £7m for 801 and 802 in his update of 28 September.

10. The CEO has confirmed the target for completion of Glen Sannox remains April - May 2023, with Liquefied Natural Gas commissioning in May 2023. He also reiterated his August assessment that 802 will reach practical completion by December 2023 with operational readiness complete by end March 2024. No change to delivery dates has yet been agreed and we continue to press for FMPG to meet the existing schedule.

11. Scottish Ministers have instructed an external commercial advisor to complete a detailed due diligence over the cost increases and test the assumptions underpinning the revised cost estimates. This assurance work is currently underway

Relationships and engagement

12. A series of regular calls between the Deputy First Minister, and FMPG has been organised.

Next steps

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

OFFICIAL - SENSITIVE

- 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.
- Validation of the weight of hull 801.
- Monitor and report on the new programme with [redacted] on Cable installation

14. 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 permanent Chair for the Board of Directors of FMPG. Noting that the interim Chair's appointment has been extended until end of October 2022.
- Continue to support the work to improve the metrics in the yard's weekly, and monthly progress reports and to ensure that reporting links spend to delivery of individual work packages and performance targets.
- Continue to work closely with Ferguson Marine finance, planning and programme teams in their work on financial assurance over 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

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

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18 October 2022

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

Permanent Secretary
 DG Economy
 Chief Executive Transport Scotland
 Director Economic Development
 Kate Hall
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 Frances Pacitti
 [redacted]
 [redacted]
 [redacted]
 [redacted]
 Leanne Dobson
 John MacFarlane
 Kate Higgins
 [redacted]
 [redacted]
 Comms Finance and Economy
 Comms Transport Scotland

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

- separate document

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

- separate document

ANNEX C – FMPG PROGRAMME RISK REGISTER FOR DELIVERY OF 801 AND 802 – August 2022

- separate document