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From: Kate Hall
Deputy Director
Strategic Commercial Assets Division
28 June 2023

FIRST MINISTER

DEPUTY FIRST MINISTER

CABINET SECRETARY FOR WELLBEING ECONOMY, FAIR WORK AND ENERGY

Ferguson Marine Port Glasgow (FPMG)– UPDATE

Priority and Purpose

1. Immediate. By the end of June, the CEO of Ferguson Marine Port Glasgow (FMPG) is due to provide his regular quarterly update to the NZET Committee. In preparing that submission, two key issues have emerged:

- **[REDACTED]**
- The potential consequence of a safety decision taken last week by the Marine Coastguard Agency (MCA) which could result in either 801 not entering service until early Summer 2024 or, if agreed by the MCA, the vessel entering service as planned (end 2023) but initially with a reduced capacity until the equipment is available to carry out the new work (estimated 6-9 month delivery timetable)

Recommendation

2. Ministers are asked to note the projected cost increase of £40 million for the delivery of vessels 801 and 802 and potential further delays in the delivery of 801 due to safety issues stemming from the original design. Ministers are also asked to note that the CEO of FMPG is due to submit a quarterly update to the NZET Committee by the end of this week. Discussions are taking place currently about the content of this letter but it is recommended that it describes and provides an accurate current assessment of the impact of both issues.

Context and Issues

Financial Situation for 2024/2025

3. The CEOs projected total cost to complete (TCTC) both vessels was assessed in September 2022 as £202.6m from the point of public ownership. This led to a process of due diligence that concluded that whilst all Accountable Officer tests

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had been passed in respect of 801, the value for money test had not been passed in respect of 802 and that therefore a Written Authority was required.

4. FMPG has continued to state publicly that the TCTC would remain “largely at September costs”. At its Board meeting in May, FMPG described a worst case scenario which revised estimates up to [REDACTED], but these were said to be draft numbers and were not cleared for release. In public, the CEO has, until this point, continued to stand behind the numbers he provided in September, albeit that has not ruled out the possibility of further increases.
5. As part of the due diligence, our advisors estimated the costs as being at least [REDACTED] with a risk that this could increase further given inflationary pressures and increased contingency to manage design changes. These higher numbers were used within the value for money assessment, [REDACTED]
[REDACTED]
6. We are still working to resolve a continuing lack of clarity from FMPG about the precise causes of these cost increases. However, given the information now provided and our commitments to be as transparent as possible to Parliament, it would not be credible for the CEO’s quarterly update not to report these developments and the CEO agrees with this approach.

Maritime Coastguard Agency (MCA) compliance Certification for Glen Sannox (801)

7. The CEO of FMPG wrote to Scottish Ministers on 2 March, setting out the revised handover plans for vessels 801 and 802. At this time the company were aware that the passages and stairwells providing exit from levels 6 and 7 on the vessel were not compliant but were working on a contingency plan that would have added an additional staircase and passage ways to access the escape route on level 5 of the vessel. There was a degree of confidence around the acceptability of this solution because FMPG had been discussing with the local representative of the MCA.
8. On 26 June, the CEO advised Scottish Government that on Friday 23 June the MCA, at a national level, had rejected the proposed contingency plan on safety grounds.
9. A possible solution is to add two additional 2 Marine Evacuation Chutes (MECs) (similar to those that one would use for evacuating an aircraft) on deck 7. Whilst this is relatively simple to achieve from a build perspective, the chutes need to be ordered and current indications are that there will be a lead time of circa 6 months.
10. FMPG are discussing whether the vessel could be approved and undergo sea trials and initial operations without these MECs, but with a reduced passenger capacity [REDACTED][REDACTED]. If this is acceptable from a safety perspective, the additional MECs would then require to be retrofitted at a later date, incurring a short withdrawal from operations for the work.

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11. The timescale for this retrofitting has yet to be confirmed. However, the cost of each slide is anticipated to be in the region of [REDACTED] to the TCTC and additional cost in terms of disruption to the service.
12. FMPG are currently costing and seeking approval from the MCA with regard to this proposed solution, and have undertaken to update the Scottish Government once the position is confirmed. The CEO argues that the issue relates to the original design inherited by FMPG design and that the company has worked closely with MCA throughout the build to develop acceptable remedial solutions.

Options Considered and Advice

13. Ministers will be aware from the recent submission on 5th May that the Accountable Office assessment carried out on the two vessels indicated that whilst both vessels met the tests of propriety and regularity, only the proposed investment in 801 met the value for money test. A Written Authority was therefore required and issued to enable the completion of Vessel 802.
14. Whilst the due diligence underpinning this assessment related to the costs provided by FMPG in September 2022, our external advisors identified a series of reasons why these might understate the final position. [REDACTED]

[REDACTED]

Timing

[REDACTED]

Scottish Government has continued to maintain the position that it is for the CEO of FMPG to confirm the costs of the vessels in the first instance.

17. The CEO of Ferguson Marine Port Glasgow (FMPG) is due to provide his regular quarterly update to the NZET Committee at the end of this month. This is the point at which cost increases should be declared to Parliament [REDACTED]

18. [REDACTED]

19. A more detailed handling plan will be provided to support the publication of this letter once we have further clarity on the costs and the likely delay window for 801.

Bute House Agreement Implications

20. There are no Bute House implications.

[REDACTED]

Sensitivities

23. Cost increases and potential delays to delivery will generate high levels of criticism given the continuing public and Parliamentary interest in the delivery of the vessels and ferry services more generally.

[REDACTED]

26. At the meeting with the First Minister and the CEO of FMPG on 17 May, the Cabinet Secretary was clear with his request to the CEO of FMPG that he must

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set out a clear timetable and cost schedule that Scottish Government could consider.

27. At the PAC on 1 June, the CEO of FMPG did not state any position of the budget on 801. In relation to 802, he was asked for the costs and reiterated the position that they are still working on the estimate from September 2022 of £105.1m including a contingency.

Quality Assurance

28. This submission has been cleared by the Director Economic Development

Conclusions and next Steps

29. Ministers are asked to note:

- the unwelcome news from FMPG both in relation to cost increases and potential further delays and disruption due to the recent decision by the MCA.
- that these cost increases do not change the recommendations of the recent Accountable Officer assessment not the appropriateness of the actions taken subsequently by Ministers
- that the CEO will provide an update on these matters to Parliament in his quarterly update to the NZET Committee due this week
- that we will provide further advice on the CEOs current assessment of costs and a more detailed handling plan in relation to the CEOs letter and its contents.

Kate Hall

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Directorate for Economic Delivery – Strategic Commercial Assets Division

07[REDACTED]

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First Minister				X
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Cabinet Secretary for Net Zero and Just Transition				X
Cabinet Secretary for Rural Affairs, Land Reform and Islands				X
Minister for Community Wealth and Public Finance		X		X
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Director Economic Development
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Solicitor to the Scottish Government
Legal Secretariat to the Lord Advocate
Kenneth Hannaway
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