

Àrd-stiùiriche na h-Eaconomaidh  
Director-General Economy  
Gregor Irwin



E: [DGEconomy@gov.scot](mailto:DGEconomy@gov.scot)

Richard Leonard  
Scottish Parliament  
Edinburgh  
EH99 1SP

16 May 2023

Dear Convener

I enclose a copy of a Written Authority that I have provided to the Auditor General under the terms of Section 15(8) of the Public Finance and Accountability (Scotland) Act 2000 in relation to the completion of vessel 802 which I have received from the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy on 14 May 2023.

I also enclose the Written Authority request I set out to the Cabinet Secretary on 13 May 2023.

Regards,

**GREGOR IRWIN**

Director-General Economy  
Scottish Government

Cabinet Secretary for Wellbeing Economy,  
Fair Work and Energy  
Neil Gray MSP



Scottish Government  
Riaghaltas na h-Alba  
gov.scot

T: 0300 244 4000  
E: [cabsecwefwe@gov.scot](mailto:cabsecwefwe@gov.scot)

Gregor Irwin  
Director General Economy  
Scottish Government

14 May 2023

Dear Gregor

Thank you for the submission of 13<sup>th</sup> May 2023 on the costs to complete vessels 801 and 802 at Ferguson Marine Port Glasgow (FMPG). It is clear that there has been an extensive process of due diligence around these cost estimates and I would like to thank your team and their advisors for the quality of their work.

The Scottish Government's decision to take Fergusons Shipyard into public ownership back in 2019 was driven by three key objectives: the completion of vessels 801 and 802 in order to provide sustainable, high quality lifeline services to our island communities; to support a highly skilled and dedicated workforce; and to ensure a sustainable future for the shipyard given its importance to the local economy and the resilience of Scotland. I believe that this was the right thing for the Scottish Government to do and I continue to be impressed by the way in which the workforce in the yard have worked so hard and with such pride to deliver the vessels in often difficult circumstances.

Your Accountable Officer duties are set out in the Public Finance and Accountability (Scotland) Act 2000, in particular section 15, and are further covered in the Scottish Public Finance Manual. These duties require that any public expenditure should meet with the regularity and propriety principles and the value for money principles (that resources are used economically, efficiently and effectively). I am satisfied that you have scrutinised and interrogated the projected costs provided by FMPG and assessed these against alternative options.

Ministers have been very clear over a long period of time that every effort must be made by FMPG to deliver the vessels in the most cost-effective way possible. It is therefore very concerning that costs have increased and anticipated delivery dates for the vessels have slipped back.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See [www.lobbying.scot](http://www.lobbying.scot)

St Andrew's House, Regent Road, Edinburgh EH1 3DG  
[www.gov.scot](http://www.gov.scot)

I do, of course, acknowledge that there are always risks around the delivery of first-in-class vessels and that FMPG continue to incur costs related to design decisions taken some time ago and under previous ownership. I am also conscious of the impact that inflationary pressures in the wider economy have had upon capital and operational costs.

I have considered the due diligence conducted very carefully and am satisfied that a comprehensive process has been carried out with the support of external advisors. I therefore accept your judgment around the narrow value for money case for continuing to build vessel 802 at FMPG. Having said that, in making a decision around the way forward I am, as your minute acknowledges, guided by a wider set of considerations relating to the policy objectives set out by Scottish Ministers and the impact that any decision might have on people, communities and national resilience.

From the very start, Scottish Ministers have been clear that our island communities deserve to be supported by two new, energy efficient vessels with the capacity and reliability required to support vibrant island economies. While I accept that the value for money assessment concludes that it would be cheaper to re-procure a new vessel, this work also shows that doing so would result in further delays. A new vessel could not be deployed until May 2027 at the earliest – four years from now. I do not consider that it is acceptable to ask our island communities to wait this further period. Vessel 802 will provide lifeline connectivity to the mainland, ensure that people on Arran are supported for day-to-day needs around health, education and commercial activity and provide a resilient service to support the tourist industry which contributes so much to the island's economy. Recent issues with the reliability of an ageing island fleet and the costs associated with hiring replacement vessels in order to maintain services have merely added to the compelling case for delivering additional capacity as quickly as possible.

While the value for money case takes account of the direct economic benefit of completing Vessel 802, under the Treasury Green Book rules it cannot consider wider economic considerations. I think it is imperative that Ministers consider the wider economic factors. I am committed to supporting the workforce at FMPG and recognise the importance for jobs, skills and the opportunities for future generations that the yard provides. We have set a clear policy objective of protecting commercial shipbuilding on the Clyde and, in particular, retaining skills that have both a long-term tradition in the area and a vital role to play in the future economy where significant investment is planned in offshore wind and other renewables. More immediately, of course, the continuing delivery of Vessel 802 through FMPG ensures that the local economy benefits from the company's spend on salaries, subcontractors and taxes which support the local labour market and wider businesses in the Inverclyde area and beyond, which would be lost if we did not proceed.

Finally, I remain committed to supporting a sustainable future for FMPG. I believe that cancelling the contract with the impact that this would have on the company's reputation and financial position and the concerns it would generate for the workforce mean that it would be extraordinarily difficult to see a route to such a future. I believe that confirming our intention to deliver Vessel 802 at the yard provides a platform upon which future success can be built.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See [www.lobbying.scot](http://www.lobbying.scot)

Delivery of Vessel 802 is in the clear interest of our island communities that the vessel will serve and the community of Inverclyde. It is also in our national economic interest to preserve, enhance and develop our shipbuilding industry.

As such, this letter provides you with the necessary written authority, under section 15(8)(a) of the Public Finance and Accountability (Scotland) Act 2000, to continue with the build of Vessel 802 at FMPG based on the current cost projections. In doing so, I ask you as Accountable Officer to ensure that you and FMPG do everything possible to improve productivity, maximise operational efficiency and ensure that there is a tight control on costs. I would expect FMPG to provide a detailed scrutiny of the forecast costs, the expenditure incurred and monthly progress on this and the anticipated delivery dates to Ministers.

The completion of Vessel 802 at FMPG is the best possible solution to moving the shipyard towards a sustainable future. We will continue to play whatever part we can to support the business, as both shareholder and government. It is now for FMPG to meet the justified expectations of the public and deliver this vessel as planned.

**NEIL GRAY MSP**  
**Cabinet Secretary for Wellbeing Economy, Fair Work and Energy**

Àrd-stiùiriche na h-Eaconomaidh  
Director-General Economy  
Gregor Irwin



Scottish Government  
Riaghaltas na h-Alba  
gov.scot

E: [DGEconomy@gov.scot](mailto:DGEconomy@gov.scot)

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See [www.lobbying.scot](http://www.lobbying.scot)

St Andrew's House, Regent Road, Edinburgh EH1 3DG  
[www.gov.scot](http://www.gov.scot)

13 May 2023

Cabinet Secretary for Wellbeing Economy, Fair Work and Energy

## **Completion of Vessel 802**

The contract for the delivery of vessels 801 and 802 was awarded by CMAL to Ferguson Marine Engineering Ltd (FMEL) in August 2015 and signed in October 2015. This was a key deliverable within Scotland's Vessel Replacement and Deployment Plan.

The shipyard was brought into public ownership in August 2019 as Ferguson Marine Port Glasgow Limited (FMPG). From the start, Scottish Ministers' objectives have been to complete the two vessels given their importance in providing lifeline services to island communities, to secure a future for the shipyard, and to retain jobs and skills in what is one of the last remaining commercial shipyards on the Clyde.

In line with the requirements of the Scottish Public Finance Manual (SPFM), which follow on from the requirements of the Public Finance and Accountability (Scotland) Act 2000 ('PFA Act'), due diligence has been undertaken on the revised estimated cost to complete each vessel approved by the Board of Ferguson Marine Port Glasgow (Holdings) Limited and submitted by the CEO to the Scottish Parliament and Ministers on 28 September 2022.

Given the increase in estimated costs from those previously set out by the CEO of FMPG in March 2022, the complexity of the build programme and the importance of a full and thorough assessment to support any approval of public expenditure, this due diligence process has been supported throughout by external commercial advisors.

As Accountable Officer I am required under the PFA Act to assess the regularity, propriety and value for money of policies and programmes.

I am satisfied of the regularity and propriety of completing vessel 802 in line with the existing contract but the value for money case, in which I am required to be satisfied that resources are used economically, efficiently and effectively, is more challenging. A comparison of the projected costs from now until vessel completion with the alternative options, allied to risks driven by inflationary pressures and supply chain issues and an uncertain economic outlook, combine to make it very difficult for me to gain sufficient assurance that value for money, as determined by the PFA Act which I must adhere to, can be achieved.

I am therefore required under section 15(8)(a) of the PFA Act to obtain written authority from Scottish Ministers should you wish to proceed with the completion of vessel 802 at FMPG.

While I am bound by the requirements of the PFA Act in relation to the financial judgements, policy decisions are the responsibility of Ministers. There are entirely legitimate and important factors that Ministers can take into account when arriving at a decision on the future of vessel 802. These include the potential impact of that decision on the policy objectives of supporting island communities and improving the resilience of Scotland's ageing ferry fleet, retaining jobs in Inverclyde, and supporting the future of commercial shipbuilding on the Clyde. In particular, you may wish to consider how under any scenario continuing work on vessel 802 could be an important step towards ensuring the shipyard's future and the additional implications for these policy objectives that would follow from that.

Should Scottish Ministers wish to progress with completion of vessel 802 on the basis of these wider considerations and benefits, I would be grateful for written authority (pursuant to

section 15(8)(a) of the PFA Act) to enable me to implement this. I would, of course, continue to be conscious of the need to scrutinise any and all expenditure incurred on an ongoing basis and will ensure that we maintain a robust approach to financial monitoring so that Ministers are fully sighted on progress, performance and actual costs incurred. I would propose to retain external advisors throughout this period to ensure that, where necessary, estimates and proposals from FMPG are interrogated to the highest independent standards.

In line with the PFA Act, the SPFM, and Cabinet procedures, this letter has been copied to the First Minister and the Deputy First Minister. A copy of this request and of the Written Authority will be shared as soon as possible with the Auditor General for Scotland and with the Clerk of the Public Audit Committee.

**GREGOR IRWIN**

Director-General Economy  
Scottish Government