

Public Audit Committee

16th Meeting, 2023 (Session 6), Thursday, 1 June 2023

The 2021/22 audit of Ferguson Marine Port Glasgow (Holdings) Limited

Introduction

1. At its meeting today, the Public Audit Committee will take evidence from Ferguson Marine Port Glasgow (Holdings) Limited (FMPG) and the Scottish Government on the Auditor General for Scotland's (AGS) section 22 report, [The 2021/22 audit of Ferguson Marine Port Glasgow \(Holdings\) Limited](#), published on 14 March 2023. The report can be found in **Annexe A** of this paper.
2. The Committee previously took oral evidence from the AGS on the report on [27 April 2023](#). At this meeting, the Committee agreed to write to the Scottish Government to seek clarification on the work of the independent review it had commissioned to assess funding and future options for FMPG. A response has been received and can be found at **Annexe B**.
3. Following the evidence session, the AGS wrote to the Committee to draw its attention to an error in paragraph 23 of the report regarding the date in which FMPG's Remuneration Committee approved the bonus payments to senior managers. This date should have been May 2021, rather than February 2022 that was originally quoted in the report. The correspondence can be found at **Annexe C**.
4. On [16 May 2023](#), the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy Committee made a statement to Parliament regarding due diligence on the regularity, propriety and value for money of continuing to complete vessels 801 and 802 at FMPG. The Cabinet Secretary explained that while the regularity and propriety of completing vessel 802 is in line with the existing contract, the Scottish Government Accountable Officer (the Director-General Economy) does not consider there to be a value for money case to complete vessel 802 at FMPG.
5. Under the terms of the [Public Finance and Accountability \(Scotland\) Act 2000](#), there is a statutory duty on Accountable Officers to obtain Written Authority from

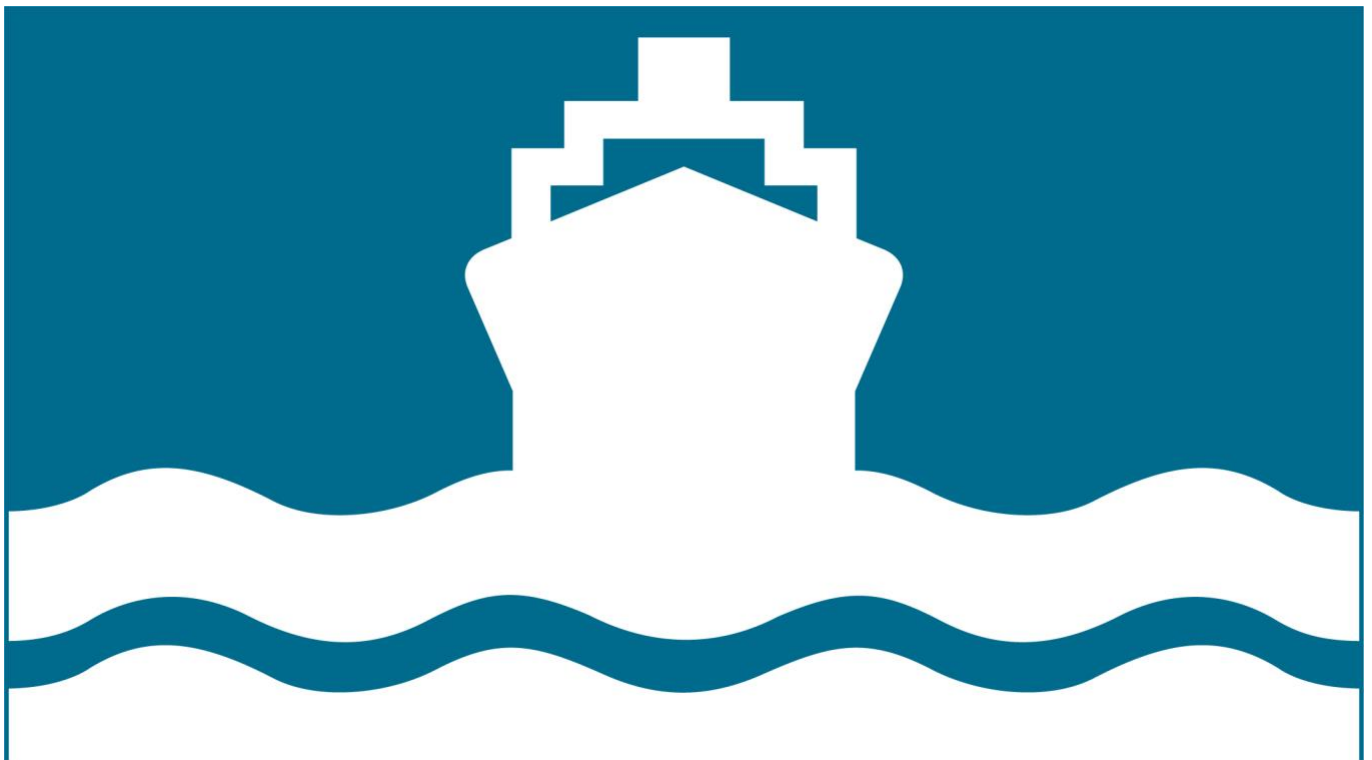
Ministers before taking any action which they consider to be “inconsistent with the proper performance” of their functions. As such, the Director-General sought Written Authority from the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy Committee to secure the continued build of vessel 802 at FMPG.

6. In line with the requirements of the [Scottish Public Finance Manual](#), the Accountable Officer is required to provide copies of the Written Authority request and the Written Authority itself to the Auditor General and the Clerk to the Public Audit Committee. On 16 May 2023, this information was provided by the Director-General Economy and can be found in **Annexe D**.
7. The Committee considered this information on 18 May 2023 and agreed to invite the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy Committee to provide oral evidence on issues relating to his decision to provide Written Authority to proceed with the build of vessel 802 at a future meeting. The date for this session is scheduled for 22 June 2023. On 24 May 2023, the Cabinet Secretary wrote to the Committee to provide further information about his decision to provide Written Authority. This correspondence can be found at **Annexe E**.
8. The Committee will decide any further action it wishes to take after the evidence session today.

**Clerks to the Committee,
30 May 2023**

The 2021/22 audit of

Ferguson Marine Port Glasgow (Holdings) Limited



AUDITOR GENERAL 

Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000

March 2023

Introduction

1. I have received the audited annual report and accounts and the independent auditor's report for Ferguson Marine Port Glasgow (Holdings) Limited (FMPG) for 2021/22. I am submitting these financial statements and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

2. The auditor issued an unqualified opinion on FMPG's financial statements for 2021/22. The auditor has highlighted some risks and uncertainties to the financial viability of FMPG within their audit certificate. I have prepared this report to draw the Scottish Parliament's attention to these matters.

Key messages

- 1 The final cost of vessels 801 and 802 remains uncertain. The Scottish Government increased FMPG's 2022/23 capital funding by £27.7 million to £61.1 million and a further £57.6 million is allocated in the 2023/24 budget approved by Parliament. Current FMPG estimates suggest around £9.5 million more will be required to fund the vessels, beyond the amount already approved. This would bring the total cost to £293 million. Remaining costs will need to be considered as part of future budget processes. FMPG will update Parliament on progress before the end of March 2023.
- 2 The Scottish Government issued a letter of comfort to the FMPG Board in December 2022. This provided assurances that the Scottish Government intends to continue to support FMPG financially for at least 12 months from February 2023 to deliver the two vessels and in securing a sustainable future for the yard. This is subject to Parliamentary approval of funding and due diligence of funding requests.
- 3 The Scottish Government commissioned an independent review of FMPG's estimate of costs. This concluded that FMPG's cost estimates are reasonable but more contingency needs to be built in as risks still remain.
- 4 There remains uncertainty about the longer-term sustainability of FMPG. Further investment in FMPG and its workforce will be required for it to be able to secure future contracts once it has completed vessels 801 and 802. The Scottish Government has commissioned an independent review of future options for the yard, which is ongoing. Working together, FMPG and the Scottish Government need to establish and clarify plans for the future of the yard as soon as possible.

- 5 FMPG has highlighted the remaining risks and uncertainties appropriately within its 2021/22 annual report and accounts. The auditor's opinion includes a paragraph to draw people's attention to these matters.
 - 6 Performance related bonus payments of £87,000 were made to the senior management team during 2021/22. Appropriate frameworks and governance were not in place and it is not sufficiently clear how performance was assessed. FMPG did not inform, or seek approval from, the Scottish Government for these payments. It should have done so as a matter of good practice and governance. The Scottish Government has now clarified its expectations and requirements of FMPG in relation to public sector pay policies and rules.
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Background

3. In December 2019, the Scottish Government brought the Ferguson Marine shipyard in Port Glasgow into public ownership after it had been placed into administration. This created a new entity, Ferguson Marine (Port Glasgow) Holdings Limited (FMPG). FMPG is a Non-Departmental Public Body wholly owned by the Scottish Government. Scottish ministers are the sole shareholder for FMPG, holding one ordinary share of £1.

4. After FMPG was established, the existing contracts with Caledonian Maritime Assets Limited (CMAL) to build two ferry vessels, the Glen Sannox-801, and 802, for the Scottish Government were transferred to the new entity to deliver. In March 2021, after consideration of different funding options, the Scottish Government finalised the arrangements to fund and manage the vessels. This included replacing the existing contract between CMAL and FMPG with a new contract for each vessel.

5. The restructuring of the contracts means that the vessels, as assets, are owned by the Scottish Government. As a result, vessels 801 and 802 are not recorded on FMPG's financial statements but sit on the Scottish Government's consolidated balance sheet as Assets Under Construction at a value of £74 million. The costs incurred in building 801 and 802, and the Scottish Government funding to cover them, are included in FMPG's financial statements.

6. I previously reported on the [New vessels for the Clyde and Hebrides](#) and the arrangements to deliver these vessels in March 2022. I also reported on the Scottish Government's decision to bring the Ferguson Marine shipyard into public ownership in my December 2021 report on the [2020/21 audit of the Scottish Government Consolidated accounts](#). I provided a further update on FMPG in my December 2022 report on [2021/22 audit of the Scottish Government Consolidated accounts](#).

The final cost of vessels 801 and 802 remains uncertain. Current FMPG estimates suggest further funding of around £9.5 million may be required, meaning a total cost of £293 million

7. FMPG's strategic report (pages 4 and 5), within its 2021/22 annual report and accounts, provides the company directors' assessment of going concern. This highlights the risks and uncertainties over current and future contracts and funding. The auditor included a paragraph within their audit certificate (opinion) on FMPG's annual report and accounts to draw attention to these matters.

8. The auditor considered FMPG's ability to continue as a going concern for a 12-month period beyond the date of signing the 2021/22 audit report in February 2023. The auditor's judgement took into consideration:

- Management's own assessment of going concern and discussion with them.
- Review of cash flow forecasts for the next 12 months including estimates made by management.
- A letter of comfort issued by Scottish Government to the FMPG Board in late December 2022. The letter of comfort provides the company directors with formal assurance that the Scottish Government will provide financial support to ensure the company can meet its obligations for a standard period of at least 12 months after the accounts were approved.
- The Scottish Government's 2023/24 Draft Budget on 15 December 2022.

9. The timeline, anticipated at the time of the original contract with FMPG was for 801 and 802 to be delivered by April 2022 and December 2022 respectively.¹ The revised target dates for delivery are May 2023 for 801 and March 2024 for 802.² The Chief Executive Officer (CEO) of FMPG is due to give his quarterly update on progress to the Scottish Parliament before the end of March 2023.

10. [Exhibit 1](#) sets out FMPG's spending to date on the 801 and 802 and its estimated costs of the vessels. My March 2022 report stated that £83.25 million had been spent on building the vessels prior to the shipyard coming into public ownership.³ Based on FMPG's current estimates this means the total cost of the vessels is now expected to be around £293 million.

¹ The expected delivery dates for the original contract between CMAL and Ferguson Marine Engineering Limited was May 2018 for 801 and July 2018 for 802.

² 2021/2022 Ferguson Marine (Port Glasgow) Holdings Limited Annual Report and Financial Statements.

³ [New vessels for the Clyde and Hebrides report \(page 102 and 147\) Audit Scotland, March 2022.](#)

Exhibit 1**Current estimated cost of vessels incurred by FMPG**

	£ million
Estimated cost of vessels 801 and 802 to FMPG (including warranties) *	209.6
Total spending by FMPG on 801 and 802 up to 31 March 2022	81.4
Allocated in 2022/23 budget and subsequent revisions	61.1
Allocated in 2023/24 budget	57.6
Potential future funding requirement yet to be considered	9.5

* [Letter from Chief Executive Officer of FMPG to the convener of the Scottish Parliament Net Zero, Energy and Transport Committee, 28 September 2022](#). This is the upper amount of the estimated range of £197.4 million to £209.6 million. Potential warranty costs of £7 million are included in this amount. These are costs that could be incurred after the ferries are completed if any parts are found to be defective or need replaced.

11. FMPG's total estimated cost for 801 is £101 million, and £108.6 million for 802.⁴ During 2022, the Scottish Government commissioned an independent consultant to review FMPG's financial forecasts and key assumptions to complete 801 and 802.

12. This work concluded in December 2022 and found that forecasting undertaken by FMPG was reasonable, but there were a number of assumptions and uncertainties that also needed to be factored in. These included:

- the need to build in more contingency into estimates, given the history to date and profile of increasing costs. FMPG's September 2022 estimate included a contingency of £6.2 million which the independent review considered to be too low.
- the extent to which any remaining design and delivery risks would lead to further rework and the costs which could be clawed back.

⁴ [Letter from Chief Executive Officer of FMPG to the convener of the Scottish Parliament Net Zero, Energy and Transport Committee, 28 September 2022](#)

- increasing costs and general supply chain pressures within the construction sector are likely to continue to impact on costs and timescales.

13. During October to mid December 2022, FMPG made expenditure commitments of between £10 and £15 million more than the Scottish Government had allocated it for 2022/23 at that point. FMPG was uncertain whether the Scottish Government would fund these committed costs and sought retrospective assurances. The Scottish Government issued a letter of comfort to the FMPG Board in December 2022. This provided assurances that it intends to continue to support FMPG financially for at least 12 months from February 2023 (the support period) to deliver the two vessels and secure a sustainable future for the yard. This is subject to Parliamentary approval of funding and Scottish Government due diligence on funding requests from FMPG.

14. The Scottish Government also announced additional funding of £15 million in December 2022 and a further £6 million in February 2023, increasing FMPG's capital budget to £61.1 million for 2022/23 ([Exhibit 1](#)). The Scottish Government would have to manage any additional funding required in 2023/24 and potentially 2024/25 within its overall budget. Based on FMPG's September 2022 estimate of final costs, this suggests there may be a future funding requirement of around £9.5 million which would have to be considered in future budget rounds.

There are risks and uncertainties to the longer-term financial viability of FMPG

15. The company directors' assessment of going concern also identified risks and uncertainties relating to the longer-term funding and financial viability of FMPG. These are highlighted by the auditor in their audit certificate with further details provided in their [annual audit report](#).

16. Currently, FMPG's main source of income is Scottish Government funding to cover the costs to deliver 801 and 802. The letter of comfort provided to the board in December 2022 confirms that funding will be provided during the support period. Any future public funding required will need to be approved, subject to due diligence, through future Scottish Government Budgets and revisions.

17. FMPG's only other commercial income has been from a contract with BAE relating to the secondment of 18 employees from FMPG to work in BAE's Govan shipyard. There are uncertainties within FMPG's cashflow estimates relating to this income and FMPG's ability to win future contracts.

18. FMPG is considering future business plans and what further investment is needed for it to be competitive and secure future contracts. The level of investment that is likely to be required for these purposes has not been confirmed by FMPG or the Scottish Government.

19. The amount of investment ultimately required to maintain FMPG as a going concern will depend on decisions about its future operating model and workforce requirements. Currently, FMPG's workforce, while skilled, is ageing

and it is being supplemented by the use of contractors. FMPG has reported that there are limited shipbuilding skills available in Scotland and that, to date, it has been unable to compete effectively with the private sector for skilled staff. This has implications for future costs and FMPG's ability to secure and deliver future contracts. FMPG's committed salary costs have increased during 2022/23. Rising energy and supply chain costs will also continue to put pressure on FMPG's budget.

20. At the time of the conclusion of the annual audit in February 2023, the outcome of the review commissioned by the Scottish Government to assess both funding and future options for FMPG had not yet been published. It is important that the Scottish Government concludes this review and clarifies its future approach as soon as possible to provide more certainty to FMPG and its staff.

There was insufficient transparency and poor governance over bonuses paid to FMPG's senior management team

21. In 2021/22, performance related bonuses were paid to six employees, totalling £87,000.

22. The senior management team employed in 2019, when FMPG came into public ownership, held employment contracts containing a clause entitling them to a performance related bonus of up to 20 per cent of their base salary. However, there was no performance management framework of key performance indicators (KPIs) which set out how performance would be assessed or measured.

23. Payment was approved by **FMPG's Remuneration Committee** based on a paper prepared by the former Turnaround Director in May 2021. This recommended that 7.5 per cent should be paid on the delivery of milestones determined by FMPG. The remaining ten per cent paid was discretionary based on performance. A letter from the Turnaround Director to each Director confirmed this performance related bonus was payable as a result of the structural completion of the hull on vessel 801.

24. There was a lack of transparency and good governance around the assessment and approval of these payments. FMPG was unable to evidence the evaluation over the discretionary element of this payment. The Scottish Government was not made aware of these bonus payments, and they were not subject to approval by the sponsor department.

25. I would consider it as a matter of good practice and governance for FMPG to have sought advice and approval from the Scottish Government in this case.

Other pay arrangements

26. FMPG's Framework Agreement includes an overall framework for pay. It was not formally agreed until March 2022, after bonus payments were approved. Prior to that, FMPG was not sufficiently clear what the Scottish Government's requirements and expectations of it were in respect to pay.

FMPG's Remuneration Committee membership consists of: the Chair of the Board, two Non-Exec Board members and the Turnaround Director.

27. While FMPG is not required to comply with all rules on public sector pay and conditions, any significant departures from these now explicitly requires Scottish Government approval. The Framework Agreement provides that 'FMPG maintain regular dialogue with the SG Finance Pay Policy on any proposals with an expectation that these will be broadly consistent with the provisions of SG Pay Policy and Staff Pay Remit. Any significant deviations will require further approval'. While the Framework Agreement itself does not clearly define what it considered as being 'broadly consistent' or a 'significant deviation', the Scottish Government provided clarification to FMPG in February 2023.

28. The Scottish Government appointed a Turnaround Director in August 2019. He left the role in February 2022. During 2021/22 FMPG paid remuneration of £591,232 and expenses of £70,102 for his services. This brought the total cost of this arrangement to around £1.8 million. No bonus was paid to the Turnaround Director during 2021/22.

29. FMPG appointed a permanent Chief Executive in February 2022. The recruitment process was supported by an external recruitment agency with salaries benchmarked, with similar industries. The appointment of the Chief Executive was made by the FMPG Board, with Scottish Government approval. The salary and overall employment package were also authorised by the Scottish Government. This includes a base salary of £205,000 alongside a potential performance related bonus of up to 40 per cent of base salary, based on KPIs. At the time of appointment, there was not yet a KPI framework established, to assess performance. No bonus was paid to the Chief Executive in 2021/22.

FMPG has subsequently approved a pay performance framework but this is yet to be approved by the Scottish Government

30. The FMPG Remuneration Committee approved a performance framework for both Senior Managers and the Chief Executive in November 2022. At the time of reporting this had not yet been discussed with, or approved by, the Scottish Government.

31. The performance framework sets out criteria based upon the project plan and the delivery of key milestones. Payments would be made in instalments during 2023/24. It is important that FMPG seeks approval from the Scottish Government for this framework and that appropriate governance arrangements are agreed.

Conclusions

32. FMPG continues to face significant challenges in delivering vessels 801 and 802. It will shortly provide the Scottish Parliament with an update on progress.

33. There are uncertainties about FMPG's future funding and its ability to secure contracts after the existing contracts are completed. This presents risks to the longer-term viability of FMPG. The Scottish Government has commissioned an independent review to assess this. Working together, FMPG

and Scottish Government need to establish and clarify plans for the future of the yard as soon as possible.

34. There was insufficient transparency and governance over bonus payments of £87,000 made to FMPG's senior management team during 2021/22. FMPG needs to ensure transparency and good governance in all the decisions that it makes and ensure that they demonstrate value for money. The Scottish Government has since clarified its requirements on pay and will need to make sure these are appropriately applied.

35. I will continue to monitor progress with the delivery of the two vessels, and the ongoing reviews, and will consider further reporting in public as necessary.

The 2021/22 audit of
**Ferguson Marine
Port Glasgow
(Holdings) Limited**

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



E: DGEconomy@gov.scot

Richard Leonard MSP
Convenor
Public Audit Committee

By email: publicaudit.committee@parliament.scot

19 May 2023

Dear Convenor

Thank you for your letter of 4 May in relation to Ferguson Marine (Port Glasgow) Limited (FMPG) and your Committee's recent evidence session on the 2021/22 audit of the company.

In the Auditor General's s22 Report into the FMPG Annual Accounts 2022-23 he refers to the following: "There are uncertainties about FMPG's future funding and its ability to secure contracts after the existing contracts are completed. This presents risks to the longer-term viability of FMPG. The Scottish Government has commissioned an independent review to assess this."

While I cannot speak for the Auditor General, I believe the independent review he referred to at that session was the study by First Marine International (FMI) which was commissioned by the Scottish Government in July 2022. I can confirm that this is the only such report commissioned by the Scottish Government since nationalisation to assess FMPG's productivity and consider any potential improvements that might increase the competitiveness of the business. The study was subject to open tender and cost £212,543.75 (plus VAT).

I can confirm that Scottish Government received a final report from FMI in January 2023. The report has been shared with FMPG and is being used to inform consideration around future investment in the business. While we remain committed to transparency as far as possible, making this report publicly available would substantially prejudice the commercial interests of both FMI, whose methodologies and intellectual property inform the report, and FMPG, whose ability to compete for tenders on a level playing field would be compromised if competitors had access to detail about its productivity levels and potential improvements it might wish to consider.

I can confirm that there was no Non Disclosure Agreement between the Scottish

Government and FMI. We have however been made aware by the CEO of FMPG that FMI and FMPG did enter a Non-Disclosure Agreement with respect to engagement during the preparation of that study.

For clarification, we are aware that FMPG commissioned a separate piece of consultancy work from FMI at an earlier date. Any further detail relating to this report would be for FMPG to provide.

I would of course be happy to provide any further clarification if that would be helpful.

GREGOR IRWIN

Director-General Economy
Scottish Government

18 May 2023

Richard Leonard MSP
Convener
Public Audit Committee
Scottish Parliament

By email

Dear Convener

Section 22 report on the 2021/22 audit of Ferguson Marine (Holdings) Port Glasgow

I am writing to inform you that following the evidence session on 27 April we have identified an error in my report on the 2021/22 audit of the Ferguson Marine (Holdings) Port Glasgow Limited.

Paragraph 23 refers to the FMPG's Remuneration Committee approving the bonus payments to senior managers in February 2022. This date should have been May 2021. Unfortunately, this factual inaccuracy was not identified during our standard audit clearance processes.

Please accept my apologies. We have amended the Section 22 report accordingly.

Yours sincerely



Stephen Boyle
Auditor General for Scotland

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



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Richard Leonard
Scottish Parliament
Edinburgh
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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



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Gregor Irwin
Director General Economy
Scottish Government

14 May 2023

Dear Gregor

Thank you for the submission of 13th 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

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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

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



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

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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

Cabinet Secretary for Wellbeing Economy, Fair Work
and Energy

Rùnaire a' Chaibineit airson Eaconamaidh do Mhath
Dhaoine, Obair Chothromach is Cumhachd

Neil Gray MSP

Niall Gray BPA

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Richard Leonard MSP
Convenor
Public Audit Committee

24 May 2023

Dear Richard

Further to my statement to Parliament on 16 May, I am writing to confirm that the Scottish Government's due diligence on the costs to complete vessels 801 and 802 at Ferguson Marine has concluded.

As you are aware, in September 2022, the Ferguson Marine CEO advised the Parliament that the forecast total costs to complete vessels 801 and 802 since the point of public ownership had increased to £202.6 million which included a £6.2 million contingency. This meant a forecast cost to complete of no more than £97.5 million for vessel 801 and no more than £105.1 million for vessel 802.

While our due diligence was ongoing, Ministers agreed two uplifts to the 2022-23 Ferguson Marine budget of £15 million in December 2022 and £6 million in March 2023 to ensure that work could continue on the vessels.

The due diligence assessment has concluded that the tests of regularity and propriety are met for completing vessels 801 and 802 under the existing contracts, as is the value for money case with respect to 801. For vessel 802, the narrow value for money case has not been made, particularly given inflationary, supply chain and other pressures. In making a decision on the funding of 802, I have considered a number of wider factors.

Key to that decision is the assessment that re-procuring a new vessel would result in significant further delays and a new vessel could not be deployed until at least May 2027. I do not consider that it is acceptable to ask our island communities to wait this further period, particularly noting recent issues with the reliability of an ageing vessel fleet.

Scottish Ministers, special advisers and the Permanent Secretary are

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Similarly, I have been guided by consideration of the impact on Ferguson Marine. I remain committed to supporting a sustainable future for Ferguson Marine and believe that not delivering 802 at the shipyard would place that future, and the hundreds of jobs associated with it, in jeopardy.

On the balance of these considerations, I have provided written authority to the Scottish Government Accountable Officer to provide the funding requested by Ferguson Marine in September 2022 and secure the continued build of vessel 802. I have also reluctantly agreed to the revised delivery dates set out by the Ferguson Marine CEO on 16 March 2023. This means forecast delivery dates of autumn 2023 for vessel 801 and late summer 2024 for vessel 802. Please find a link to the [correspondence](#).

This decision was not taken lightly but is the correct decision to secure our objectives of delivering these vessels as quickly as possible while protecting the Ferguson Marine workforce and securing a future for the shipyard. The delays and cost increases remain extremely disappointing and we have formally asked Ferguson Marine to bear down on costs during the remainder of the build programme.

I also confirmed to the Parliament during the statement that Scottish Government has recently agreed to provide around £120,000 to Ferguson Marine for capital investment measures. This is broken down as £11,315 for cyber security enhancements, £60,000 to support the internal audit function for the current financial year, and £46,000 for a technical civil engineering report that will inform wider investment considerations in support of increased productivity.



NEIL GRAY

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