



Caledonian Maritime Assets Ltd  
Municipal Buildings  
Fore St  
Port Glasgow PA14 5EQ

Rural Economy and Connectivity Committee  
FAO: Clerk to the Committee, Steve Farrell

by email only

19 March 2020

Dear Mr Farrell

### **Inquiry into construction and procurement of ferry vessels in Scotland**

Further to the hearing of myself and Jim Anderson at the Inquiry into construction and procurement of ferry vessels in Scotland, during the Committee's 9th meeting on 11 March 2020, and the follow-up email from the Deputy Clerk dated 17 March 2020, I write now to provide the further information as requested.

#### **1. How long did the other bids suggest it would take to complete the build? (Col. 4 of the Official Report)**

In their tender submission, Shipyard A proposed to build the first vessel in 26 months and the second vessel in 32 months from contract award.

In their tender submission, Shipyard C proposed to build the first vessel in 24 months and the second vessel in 27 months from contract award.

In their tender submission, Shipyard D proposed to build the first vessel in 28 months and the second vessel in 34 months from contract award.

In their tender submissions, the yard that bid two designs – referred as Shipyard E and Shipyard F during the evaluation phase – proposed for both their designs to build the first vessel in 25 months and the second vessel in 27 months from contract award.

In their tender submission, Shipyard G proposed to build the first vessel in 30 months and the second vessel in 35 months from contract award.

With respect, we wish to clarify that the Convener's three questions with reference to "significant indulgence" given to FMEL (column 4 of the draft Official Report) appear misconceived. The indulgence granted by CMAL to the yard arose in November 2018 (see paragraph 8.5 of our written submission) and not at the time of tender evaluation in 2015 relating to potential build phase duration. The relevant part of our written submission in this context is paragraph 5.1 which refers to a "generous but prudent" 31 month duration including allowance for the yard redevelopment. Contrary to the Convener's statement, we would assert that there was no 'slip of the pen'.



**2. How did the other bidders present their current financial position? Is that all in writing and, if so, can this information be made available to the committee? (Cols. 10-11)**

My statement in evidence, that detailed financial discussions took place only with the preferred bidder, is correct. As part of the Invitation to Tender (ITT) each bidder was required to accept the terms of the draft contract or to provide comments or amendments to the draft in their submission.

The draft contract contained in the ITT required the builder to offer full refund guarantee coverage for the pre-delivery instalments of the price, from a first class international bank. That was the primary source of the financial security for CMAL and which FMEL in their bid held themselves out as capable of fulfilling.

**3. Which Ministers did Transport Scotland make aware of CMAL's concerns that FMEL could not deliver the contract on time and when were these concerns raised? (Col. 25)**

The timeline enclosed as Annex 6 to our letter to the Committee dated 13 March 2020 contains a selection of at least seven occasions on which CMAL's concerns about progress were expressed to Transport Scotland (TS) during 2015 and 2016 such as in our reports to the Network Strategy Group and during TS representatives' attendance at CMAL board meetings.

The Ministers whom TS made aware of these concerns is appropriately answered by TS. CMAL do not have a direct line of communication to Ministers, but only through TS as our Sponsor.

**4. Can you please send the revised payments schedule that was issued prior to the contract being signed and which supersedes the time stamped schedule that was issued on 28 August 2015? (Cols. 27-28)**

Following the announcement of FMEL as preferred bidder, between 1 September 2015 and 14 October 2015 there were seven iterations of the draft milestone and payments schedule negotiated between the parties and their legal representatives.

We have pasted below the final iteration of the milestones and payments schedule agreed between the parties – as an example, for hull 801 – on 14 October 2015 which (with logical amendments to the applicable dates, for hull 802) became clause 50 of the contracts when signed two days later.

Hull 801 – final milestone events, estimated dates and agreed values (14 October 2015)

<i>Instal- ment No.</i>	<i>Estimated Date</i>	<i>Milestone Event</i>	<i>Value</i>	<i>Percentage</i>
1	30 Oct 2015	Receipt of 25% Refund Guarantee	£2,400,000	4.948%
2	12 Nov 2015	Procurement Deposits Long Lead Items (1) (See Clause 50.2 and 50.3)	£12,100,000	24.950%
3	15 Dec 2015	Cutting of Steel	£1,400,000	2.887%
4	15 Jan 2016	Procurement Deposits Long Lead Items (2) (See Clause 50.2)	£1,000,000	2.062%
5	18 Apr 2016	10% Fabrication	£2,400,000	4.948%
6	4 Jun 2016	25% Fabrication	£3,650,000	7.526%
7	15 Aug 2016	35% Fabrication	£3,650,000	7.526%
8	14 Oct 2016	50% Fabrication	£2,400,000	4.948%
9	14 Nov 2016	Major Equipment and Lock Out Items Installations (See Clause 50.2)	£1,375,000	2.835%
10	15 Dec 2016	75% Fabrication	£1,200,000	2.474%
11	16 Jan 2017	100% Fabrication	£1,200,000	2.474%
12	14 Mar 2017	Berth Join Up	£1,200,000	2.474%
13	17 Apr 2017	Hull Inspection Prior to Paint	£1,200,000	2.474%
14	14 Aug 2017	Launch	£1,200,000	2.474%
15	25 May 2018	Delivery	£12,125,000	25.000%
		TOTAL	£48,500,000	100.000%

**5. Notwithstanding the information you have already provided on costs and payments so far made, could you offer any further explanation as to the huge scale of additional costs (in the region of £110m) calculated by the Programme Review Board to complete the vessels? (Cols. 31-32)**

The detailed analysis of the cost and time to complete both vessels was carried out by the Turnaround Director and the Interim Programme Director at Ferguson Marine Port Glasgow, appointed by Scottish Government. CMAL had no involvement in this analysis or the report.

We do know that a significant amount of investigative work was carried out from Administration on 16/8/19 to the issue date of Tim Hair's report on 18/12/19 – this was carried out under the eyes of the Programme Review Board.

From our perspective, we have mentioned on a number of occasions that the design carried out by FMEL was, in our view, inadequate and that they commenced cutting steel, building the block sections and joining up the vessel prematurely, without approval, and totally at risk. We believe that this has led to multiple and serious mistakes. It is worth noting that both we and others (including their own skilled workforce) knew that this approach would lead to necessary re-work of the built hulls in order to comply with the necessary approvals and correct standards.

It is clear that mistakes have to be re-worked and this task takes additional resource, especially once the vessel is launched and afloat. Such remedial work has to be carried out just to take the vessels back to an "approved" baseline status. This then allows the vessels to be completed properly. In addition, we understand that the procurement function within FMEL made a number of mistakes requiring dismantling and removal of equipment that had been built into the vessels, when discovered to be incorrect.

In short, we suggest the differential between (a) the sums we have paid to FMEL plus the estimated work-in-progress to the point of Administration; and (b) the reported forecast total cost to complete both vessels – is at least in part due to the extent of dismantling and re-work needed first to achieve a tolerable starting point before real forward progress in fabrication can begin. We consider that the estimate also includes a significant but prudent allowance for contingencies.

A detailed analysis of the costs can only be given by FMPG as they are the authors of the report.

Please let me know if there is further information that the Committee may require.

Yours sincerely

Kevin Hobbs  
Chief Executive Officer

for and on behalf of  
Caledonian Maritime Assets Limited