



OFFICIAL REPORT  
AITHISG OIFIGEIL

# Rural Economy and Connectivity Committee

Wednesday 5 February 2020

Session 5



The Scottish Parliament  
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - [www.parliament.scot](http://www.parliament.scot) or by contacting Public Information on 0131 348 5000

---

**Wednesday 5 February 2020**

**CONTENTS**

**Col.**

**CONSTRUCTION AND PROCUREMENT OF FERRY VESSELS..... 1**

---

**RURAL ECONOMY AND CONNECTIVITY COMMITTEE**

**5<sup>th</sup> Meeting 2020, Session 5**

**CONVENER**

\*Edward Mountain (Highlands and Islands) (Con)

**DEPUTY CONVENER**

\*Maureen Watt (Aberdeen South and North Kincardine) (SNP)

**COMMITTEE MEMBERS**

\*Peter Chapman (North East Scotland) (Con)

\*John Finnie (Highlands and Islands) (Green)

\*Jamie Greene (West Scotland) (Con)

\*Emma Harper (South Scotland) (SNP)

\*Richard Lyle (Uddingston and Bellshill) (SNP)

\*Angus MacDonald (Falkirk East) (SNP)

\*Mike Rumbles (North East Scotland) (LD)

\*Colin Smyth (South Scotland) (Lab)

\*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Luke van Beek (Former Independent Adviser to the Scottish Government on Shipbuilding)

Chris Dunn (Former Chief Naval Architect, Ferguson Marine Engineering Ltd)

Gerry Marshall (Former Chief Executive Officer, Ferguson Marine Engineering Ltd)

Jim McColl (Former Director, Ferguson Marine Engineering Ltd)

Stuart McMillan (Greenock and Inverclyde) (SNP)

**CLERK TO THE COMMITTEE**

Steve Farrell

**LOCATION**

The Mary Fairfax Somerville Room (CR2)



# Scottish Parliament

## Rural Economy and Connectivity Committee

Wednesday 5 February 2020

*[The Convener opened the meeting at 09:50]*

### Construction and Procurement of Ferry Vessels

**The Convener (Edward Mountain):** Good morning and welcome to the fifth meeting in 2020 of the Rural Economy and Connectivity Committee. I ask everyone to ensure that their mobile phones are on silent. I welcome Stuart McMillan, who is attending the meeting for agenda item 1.

Agenda item 1 is an inquiry into the construction and procurement of ferry vessels in Scotland. There will be two panels today. To start, we will take evidence from the independent adviser to the Scottish Government on shipbuilding. The second panel comprises representatives of the former management of Ferguson Marine Engineering Ltd.

I welcome our first witness, Luke van Beek, former independent adviser to the Scottish Government on shipbuilding. Luke, will you briefly explain your role and qualifications and the timings?

**Luke van Beek (Former Independent Adviser to the Scottish Government on Shipbuilding):** Of course. Good morning. I was taken on by the directorate of economic development to provide assurance that the revised shipbuilding programme was being kept to for ferries 801 and 802 and, in particular, that it was proceeding in accordance with the overall resource programme. I started in June 2018, but, just before that, at the end of May, I did my first report on the yard and its ability to perform against the programme.

My background is that I am an ex-Royal Navy procurement expert and I worked in defence procurement for a long time. I am also a Cabinet Office-accredited assessor of high-risk Government projects, and I worked in the defence industry for a while.

In summary, I was a procurement expert with a particular emphasis on maritime. In particular, I was responsible for two aircraft carriers—HMS Queen Elizabeth and HMS Prince of Wales—getting to contract when I was in the Ministry of Defence, and for the type 45 destroyer programme, which I successfully brought into service to time and cost, having taken an £800

million overspend out of the programme in the final two years that I was involved.

**John Finnie (Highlands and Islands) (Green):** Good morning, Mr van Beek. Thank you for providing that background.

In your view, did Ferguson Marine have access to the physical capacity, workforce and technical expertise that were necessary to deliver the two ferries to the original timescale and budget?

**Luke van Beek:** When I first assessed the yard against that question—you should bear in mind that I did not start what I was doing until June 2018—I was in no doubt that it had the management expertise. Having rebuilt the yard, Ferguson Marine had a good shipbuilding system in place. At that time, Ferguson Marine's resources were not in accordance with the plan, but it had an approach to increase those resources to the necessary number and, through the first three months of my engagement, that happened successfully.

Therefore, the answer to your question is that, at the beginning of the process, mostly it did—with the exception of resourcing, which FMEL had in hand to resolve, and did resolve. As time progressed, a number of things started to impact on its ability to deliver. The cash flow was causing problems, particularly towards the end of 2018, which resulted in a significant slowdown in the programme. I also highlighted a number of other concerns that I had about the overall way in which the relationship between the customer—Caledonian Maritime Assets Ltd and the Scottish Government—and FMEL was progressing, which was equally causing problems, particularly in relation to the design maturity of the two ships, and that impacted severely on the timing of a number of things occurring.

**The Convener:** We will get on to that issue later.

**John Finnie:** Yes, I was going to say that colleagues have a number of questions on that.

Could you clarify something for me? You said that in June 2018

“resources were not in accordance with the plan”.

Will you expand on that?

**Luke van Beek:** I make it clear that the plan was rebaselined in May 2018.

**John Finnie:** For the avoidance of doubt, will you say which plan that is, please?

**Luke van Beek:** The plan for building the two ships.

The shipbuilding plan was rebaselined in May 2018. The first thing that I was involved in was assessing that plan against the ability of the yard

to deliver it, including resourcing. At that time, FMEL clearly had to build up the workforce in order to deliver the plan. The plan was quite clear that, in June 2018, X number of people were needed, with a steep ramp-up of the personnel that FMEL required. Subsequently, that ramp-up happened. I am not saying that there was anything wrong with the plan. I am saying that FMEL needed more resource over the period of the plan to build the ships in order to build them.

**John Finnie:** There were three elements to my original question: physical capacity, workforce and technical expertise. Were the deficiencies in the technical expertise resolved by the workforce alterations that you have mentioned?

**Luke van Beek:** I suppose that the answer is yes, in the loosest sense, because there were not enough people. In particular, FMEL was short of two ship managers, who were recruited, I think, in November. Yes, there was some deficiency in technical expertise, but it had in hand a plan to sort that out.

**Mike Rumbles (North East Scotland) (LD):** The plan was rebaselined 18 months ago, but we were two and a half years into the project at that point.

I am more interested in the procurement process. When Ferguson Marine won the contract from the Government, one would assume that at that time—two and a half years previous to the rebaselining—it would have had an idea of the resources that were necessary to maintain a successful bid. Did anyone look back to see whether it in fact had those resources?

**Luke van Beek:** That was not done by me at that time.

10:00

It is interesting, and perhaps I could expand a little here. I had no involvement before May 2018, but my initial contact with the Scottish Government was not from the directorate of economic development but from Transport Scotland. Given my Cabinet Office accreditation, the initial contact was about undertaking a gateway review 4 for Transport Scotland. For a variety of reasons, which I am not clear about, Transport Scotland decided not to go ahead with that. However, on several occasions subsequent to being engaged, I said that, if that gateway review had been done, the issue that you are talking about would have been looked at. As it was, it was not in my remit to do that.

**Peter Chapman (North East Scotland) (Con):** On physical capacity, we heard in previous evidence that there was not enough room on the dockside to build two ships side by side. Was that

something that you reflected on? Do you agree with the evidence we heard that that made it difficult to move around the site, because there was not enough physical capacity for the two ships?

**Luke van Beek:** By the time I was involved, we had one ship on the slipway and one ship in the water. I cannot really answer that question. In the situation that I saw when I was first engaged, that was not a problem. With one ship on the slipway and one in the water, there was adequate space at both locations and there were adequate covered workshops in which to fabricate the blocks.

**Jamie Greene (West Scotland) (Con):** I have a background question. You mentioned various Government departments. Why were you instructed by the directorate of economic development rather than Transport Scotland? I understand that the client was CMAL, which was the contracting party with FMEL, rather than the Scottish Government directorate of economic development. At what point were you approached by that directorate, rather than by Transport Scotland, to work on behalf of the client, or were you actually working on behalf of the Government, rather than the client?

**Luke van Beek:** As I said, the initial approach from the Scottish Government came from Transport Scotland, but that was in the context of carrying out a gateway review. Subsequently, because my name was available to the Scottish Government through Transport Scotland, the directorate of economic development approached me with a different remit, which was not to do a gateway review but to provide it with assurance, given that it was providing the loan facility to Ferguson's, that the programme was happening as it was supposed to be happening. Of course, there was another adviser to the economic development team, which was PricewaterhouseCoopers; PWC was giving financial advice and I was giving programme, shipbuilding and technical advice.

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** I want to explore, rather narrowly, some of the project management, because you are clearly in a position to make some observations about that. I have run projects of a similar sort of size in a different engineering discipline, so there is a limited crossover—indeed, I have lectured to postgraduates on project management.

In your last review in December 2018, you say:

“The relationship between installing pipes and valves, running cables and completing compartments is complex and relies on careful sequencing of activity. This sequence is currently broken and will take time to restore.”

You say a lot more, but I chose that paragraph as it exemplifies the issues. In the first evidence session, it was suggested by the current management that the project management processes that they would have expected were not in place. Is the validity of that suggestion reflected in the comments of yours that I have just quoted?

**Luke van Beek:** Not really. The problems that occurred around the time when I wrote that report were well understood by the yard. The yard's project management system had shown them quite clearly but, for reasons of resourcing and some design maturity, the yard had decided consciously to do what it did. That did not mean that there was not a problem; the yard had decided that, rather than just stop work altogether in the engine room, it would proceed and resolve the problem later.

To be clear, I did not see a weakness in the fundamental programme and project management system. The weaknesses that I highlighted—in that report or perhaps a previous one; I cannot remember—were to do with design maturity. That was what was causing the problem.

**Stewart Stevenson:** You wrote, "This sequence is currently broken",

which I take to mean that, in the context of the Gantt chart and the work breakdown structure that one would expect in a project of this kind, things were being done out of sequence.

**Luke van Beek:** Yes.

**Stewart Stevenson:** Therefore, predecessor activities that needed to be completed before a move to subsequent activities had not been completed. Although the plan might reflect a proper way of doing things, the actions were disjointed from the plan.

**Luke van Beek:** At that time, yes.

**Stewart Stevenson:** There are no simple answers, and I do not want to simplify. However, all that suggests that some of the reworks that we might now face stem from that deviation from what you assessed at the time to be a reasonable plan.

**Luke van Beek:** I am not in a position to comment on that, because I do not know what the situation is today. However, I certainly agree with you that there had to be remedial work to sort out the sequencing issue.

**Stewart Stevenson:** An issue that seems to have emerged is the use of technical solutions that were deviations from the contract, in particular Axilock joints in the engine room, I think, and other parts that were specifically prohibited by the contract. I do not know whether such detail was in the plan. Was that to do with the firm trying to respond in a way that got things moving? You

might not be able to answer, in which case it is perfectly proper to say so.

**Luke van Beek:** I do not know the answer to that, because it was not part of my remit to check that sort of thing.

**The Convener:** Colin Smyth has some questions—sorry, I see that Mike Rumbles has a follow-up question. Do not look aggrieved, Mike; if I had seen you sooner, I would have brought you in.

**Mike Rumbles:** Thank you, convener.

Mr van Beek, how do you justify your conclusion that Ferguson Marine was a competent and well-managed shipyard, particularly in light of the evidence that we have received from Tim Hair, the turnaround director? I want to be absolutely fair and ensure that we get both sides of the story. In his report, Tim Hair says that the "basic design" of the vessels has not been completed or accepted by CMAL, and that

"The status of the detailed design ... has been difficult to establish."

He goes on to say that Ferguson exercised a lack of management control over design and construction, and sub-contractors. He says that, although degradation of the two vessels was identified, nothing much was done. He talks about poor storage of materials and stock control. Under the heading "Project planning and controls", there is a list of things that are really critical of Ferguson—

**Luke van Beek:** I have read the report.

**Mike Rumbles:** Good. In the evidence that you presented to the Government, you say that Ferguson was a competent and well-managed shipyard. We have two sets of evidence here. How do you respond to the evidence that Tim Hair gave us?

**Luke van Beek:** As I said, I have read that report, and I found quite a lot of it surprising and not in accordance with what I saw and witnessed. During the period when I was involved, I saw significant evidence of competent management. For at least the first three or four months of my engagement, I saw a plan that was being delivered to time and, according to PWC, to cost. All of that, along with my observations in the yard when I visited about once a month or every six weeks, do not bear out what was said in that report. I cannot comment on what made Tim Hair conclude what he did, but it was not my observation.

**Mike Rumbles:** This is very interesting, because we now have two diametrically opposing observations of what was going on at Ferguson Marine, from two respected witnesses. It is difficult

for the committee to get to grips with that. You do not want to comment on how you think that the turnaround director has come to that conclusion, but you do not agree with it.

**Luke van Beek:** My only observation is that during the period when I was engaged I saw—and I mentioned it, quite clearly, in my reports—a significantly deteriorating relationship between Ferguson Marine and CMAL, to the point that they had become very adversarial. There is no doubt that CMAL's view on what was happening did not accord with my own. I get the impression, based on Tim Hair's report, that a lot of what he is saying is based on evidence from CMAL.

It is also worth observing that I met with people from CMAL on several occasions. On every occasion, they were remarkably difficult to deal with and on at least two occasions they were very aggressive. They clearly did not want me to be there and felt that I was not contributing anything to what they were trying to do, which—they said—was to deliver two ships. However, I saw no evidence that that is what they were trying to do.

I recall that I said exactly the same thing when I briefed Mr Mackay. I said that the relationship between the customer and the client was broken, and that some things that CMAL was doing were very unhelpful.

On top of all that, the people who I met from CMAL were adamant that they did not want to discuss ways to make the situation better. Particularly in my later reports, I started to offer advice on how the situation could be improved. In one of my meetings with CMAL, I put my advice to them and they absolutely, flatly refused to have anything to do with it. The committee might or might not be aware that I suggested a negotiated way out of the difficulty that the builder of the ships was in, which was completely rejected by CMAL.

All that leads me to be very unconvinced that CMAL and Ferguson Marine shared the same objective of producing two ships to time and cost.

**The Convener:** We have all had access to your reports, and I have looked through them. The reports dated 31 May, 20 July and 11 September 2018 seem to be fairly relaxed and say that everything is going relatively well at the shipyard. It then transpires from your reports of 4 October and 13 December of that year and then 8 March 2019 that you turned round and blamed a breakdown in relationships. Is it fair to say that until September 2018 you thought that things were going relatively well and you were relatively sanguine, because the management was going to plan?

**Luke van Beek:** Yes. Absolutely.

**Colin Smyth (South Scotland) (Lab):** You said that you suggested improvements but CMAL was not prepared to listen. Did you make those suggestions to any ministers?

**Luke van Beek:** Transport Scotland was represented at the meeting at which I gave my proposals to CMAL, so it was well aware of what I was trying to do. However, I did not ever have access to ministers, so I do not see how I could have given them my proposals.

10:15

**Colin Smyth:** Did Transport Scotland, like CMAL, not take forward your suggestions?

**Luke van Beek:** I do not know, because Transport Scotland did not communicate with me whether it had.

**Colin Smyth:** Earlier, you said that you were approached about a gateway review.

**Luke van Beek:** That was right at the beginning.

**Colin Smyth:** Clearly, the ferries were a high-risk project, so it seems reasonable that carrying out a gateway review would have been a reasonable route to go down. Have you any idea why Transport Scotland did not pursue such a review?

**Luke van Beek:** No.

**Colin Smyth:** You have touched on the ferries' design. The committee has been told that 95 per cent of the basic design of the ferries has yet to be signed off by the Maritime and Coastguard Agency and Lloyd's of London. Is that normal at this stage in the construction of vessels?

**Luke van Beek:** No. The figure of 95 per cent is higher than I would have expected. The figure is also a surprise to me, because that was not my understanding. To be honest, I did not look into that issue in any great depth, because that was not my remit, but I cannot see where the 95 per cent figure came from. It seemed to me that the design, in the main, was well established and understood, but perhaps there were issues with the physical business of signing it off. There was an issue with design maturity—do not get me wrong; I am not saying that there was not. However, it surprised me an awful lot to read that the figure was anything like as high as 95 per cent.

**Colin Smyth:** Is the suggestion that 95 per cent of the vessels' design has not been signed off, rather than 95 per cent of the vessels not having been designed?

**Luke van Beek:** Yes.

**Colin Smyth:** Clearly, those are two separate things. That is interesting.



The committee has also been told that the problems that were caused specifically by design changes were the result of poor change management by Ferguson Marine, rather than by the number and the extent of the changes that CMAL requested. Have you any comments on that issue?

**Luke van Beek:** I think that both are true. Before I was engaged in the process, I gained the impression from some things that I looked at that there had been poor control of the change process by Ferguson Marine. That was not true during the period when I was engaged, because there was a very good system by then.

I was surprised by how significantly extensive the changes were. It was supposed to be a design and build contract, and I would not normally expect anybody to enter into such a contract until the vast majority—at least as much as 90 per cent—of the design was fixed, but that did not seem to be the case. It was clear that a number of the things that had not been agreed with CMAL caused significant downstream problems in building the ships. I want to make it clear that the vast majority of that happened before I was engaged, so I do not have any great detail on it.

The original idea, which somebody else mentioned, was to build the two ships side by side on the slipway, but that could not work because a number of the blocks were not finished in the right order. That idea could not work, not because Ferguson Marine did not have a sensible plan but because CMAL had not agreed the specifications to enable the blocks to be built.

That is a long answer to your question, but it is a complicated issue. There is no doubt that there was fault on both sides—client and builder.

**Colin Smyth:** You mentioned that there were significant changes. Kevin Hobbs of CMAL has claimed that there were just 81 changes to the contract in total, of which 46 were requested by Ferguson's. Are you saying that the scale of the changes that CMAL requested was higher than that?

**Luke van Beek:** I have certainly heard those sorts of figures previously. It was a combination of things. First, some of the changes were pretty significant. Secondly, CMAL's failure to agree specifications was nearly as significant a problem. It is all very well—

**Colin Smyth:** You say "agree". Should that have happened before the contract was finalised?

**Luke van Beek:** Yes.

**Colin Smyth:** So it should not have happened during the process—it should have been agreed in advance of the contract being finalised.

**Luke van Beek:** If you are going to put in place a design and build contract, you should have the specification almost complete when you let the contract. That was not what happened at all. It was the whole issue around the number of things that had not been specified that caused so much of the delay in the design process.

**Colin Smyth:** I assume that that is not normal in the process. Even from CMAL's point of view, would that have been a change from the way in which it normally procures vessels? Why did it not have the specifications?

**Luke van Beek:** I do not know, because I have not had anything to do with any other CMAL procurement. However, as I said, in a normal procurement of that sort of size to put in place a design and build contract, you would expect to have an almost fully specified vessel at the start of the process.

**Maureen Watt (Aberdeen South and North Kincardine) (SNP):** I want to follow up on Colin Smyth's point. As I understand it, there are three design stages in building a ship: the conceptual design, the basic design and the detailed design. The contract is awarded on the conceptual design. I cannot understand why Ferguson's went ahead with building a ship on which it did not have agreement with the contractor, CMAL. Is it not the case that CMAL has previously built ships pretty well and without such problems, even at Ferguson's? Therefore, to say that it is all CMAL's fault, when it has built ships previously, seems a bit disingenuous.

**Luke van Beek:** To be honest, I do not know whether CMAL has built ships well previously, because I have had nothing to do with that. If I gave the impression that I was saying that it was all CMAL's fault, that was not my intention. My intention was to suggest that there was a lot of fault on both sides at the beginning of the contract. I reiterate that, based on everything that I saw, which was late on in the process, I believe that the contract was let too early. I have no idea why Ferguson's started building the ships having got a contract that was not specified enough. The best way of putting it is probably that I would not have done that; I would have said that the contract was not specified enough.

**Jamie Greene:** The turnaround director told us that the conceptual design was carried out by CMAL, and that that was CMAL's responsibility, but, once that conceptual design was agreed,

"it was the yard's responsibility to carry that forward".—*[Official Report, Rural Economy and Connectivity Committee, 22 January 2020; c 14.]*

The ownership of the design would transfer to the design and build contractor. Is that how such arrangements normally work?

**Luke van Beek:** Yes.

**Jamie Greene:** Why did it not happen on this occasion?

**Luke van Beek:** What did not happen was that the conceptual design and specification were not as mature as they would normally be. Therefore, it is not true to say that it did not happen. There were flaws in what was passed across, because it was not specified enough.

**Angus MacDonald (Falkirk East) (SNP):** As has been mentioned this morning, there seems to be a contradiction between your view and that of Tim Hair. The report of the review board raised the issue that Ferguson Marine exercised a lack of management control over design and construction subcontractors. How do you rate Ferguson Marine's management of subcontractors, particularly design subcontractors? Was poor management of subcontractors a factor in the delays and cost overruns?

**Luke van Beek:** Three significant subcontractors were involved in the ships. There was the design subcontract, the electrical subcontract and the outfitting subcontract.

I had little to do with the design subcontractors, apart from being aware that the maturity of design was not as good as it should have been. Initially, that had no impact on the programme. The impact on the programme that I saw most was the difficulty of the other two subcontractors, because of cash flow. The lack of cash meant that the subcontractors waxed and waned in the amount of resource that they put into the ships, because they were nervous about whether they were going to be paid. Ferguson's deliberately slowed down some of that subcontracting. That was in November 2018, when we started to see significant slips in the programme, because that subcontract work was important—particularly the electrical subcontracting—to staying on programme. That did not happen; the subcontractors would not work because they were worried about being paid.

**Angus MacDonald:** I will move on to the concerns from the workforce. In our first evidence session, the committee heard concerns that there were poor relations between Ferguson Marine management and the workforce, with management said to have a "bullying culture". What were your views on industrial relations at Ferguson Marine?

**Luke van Beek:** I saw no evidence of poor relationships with the workforce. On most of my visits, I went into the yard; in particular, I went around 801. I must have walked around 801 seven or eight times. I did not observe any problem with that relationship. I was mostly shown around by the ops director. He seemed to have a good working relationship with the staff that we met.

**Angus MacDonald:** While you were walking around 801 seven or eight times, did you talk to the workforce?

**Luke van Beek:** Not in anything other than a casual way. I did not really engage with them.

**Angus MacDonald:** How much time did you spend in the yard?

**Luke van Beek:** For every report that I produced, I spent a day at Ferguson's, of which I spent perhaps two or three hours walking around the ship and in the yard.

**Angus MacDonald:** Okay. When you were walking around the yard, did you identify the issues around production that were highlighted by Tim Hair and in recent media reports? For example, we heard about the bulbous bow that is ready for scrapping, because it is not fit for purpose. Did you see that while you were walking around?

10:30

**Luke van Beek:** I saw a lot of fabrication going on. I think that I saw the fabrication of the bulbous bow but it was not my remit to look at whether people were building parts of the ship correctly in the yard. I was much more interested in how it would fit in with the programme. My recollection is that the bulbous bow refitting was a dry dock issue. The dry docking was planned for spring 2019, when that bulbous bow would have been fitted. By December 2018, it was clear that they were not going to meet the dry docking date so it became rather irrelevant.

**Angus MacDonald:** While you were walking around the yard, did you assess the other vessels that were in the yard and ascertain whether they were encountering similar problems?

**Luke van Beek:** I certainly visited 802 on a number of occasions and I saw the hoverbarge that was being built, but otherwise, no.

**Jamie Greene:** You may be able to clarify a point for me. Given that this was a fixed-price design and build contract through Transport Scotland between CMAL and FMEL, were you not a little bit surprised when the Scottish Government approached you and said that it wanted to contract you to advise it on the drawdown of a further £45 million in funds? Would that not inevitably raise questions about cost overruns in the project in general?

**Luke van Beek:** There was undoubtedly a cash-flow problem. One of the interesting things about how the contract was set up was where the milestone payments were set. Unusually, they were set in a way that meant that a cash-flow problem was very likely—that is probably the best

way of putting it. For example, there was a long gap between a milestone that was reached before I joined and the next milestone, which was the 801 operational date. Of course, as 801's date slipped further, the cash projections got worse, because that milestone had shifted.

My understanding, from the economic development directorate, was that the loans were to stabilise the situation and settle down the cash-flow issue while other issues were resolved, such as the design maturity, the relationship with CMAL and so on. As I understand it, that loan was not made specifically in relation to 801 and 802; it was made to keep the yard viable to win other work. I was a little bit involved in seeing how the winning of other work went. Particularly around November 2018, it was severely hampered by the reputational issues that had come FMEL's way because of some press briefings and so on—

**Jamie Greene:** That is quite a long answer, but I will pick you up on a particular point: what was the purpose of the loan funding? You were contracted by the economic development directorate of the Government. Your drawdown report of 7 November talks about the project Poseidon commercial loan to FMEL and says that the loan agreement states that FMEL will provide information, including

“a build update report on the build-out of vessels 801 and 802.”

Your understanding was that the loan funding was directly linked to progress on vessels 801 and 802, but you have just said that it was not. Which was it?

**Luke van Beek:** There is no doubt that there was a significant alignment between the loan and 801's and 802's cash-flow issues, but my understanding is that that was not the only reason that the loan was given. I had two other, much less significant, remits: one was to see how the yard was doing at winning other work and the other was to offer it some advice on Ministry of Defence future contracts.

**Jamie Greene:** I understand that your job was to advise the Government whether it should release the funds from the loan and whether it was sitting in a holding account somewhere.

**Luke van Beek:** Yes.

**Jamie Greene:** Surely, there must have been parameters that you were working to in order to decide whether you would recommend the drawdown of the funds.

**Luke van Beek:** Yes, and those parameters were almost exclusively around the delivery of 801 and 802.

**Jamie Greene:** Therefore, one can draw the conclusion that the drawdowns of the loan funds were directly related to progress on the vessels and, therefore, that the loan funding was to fund the development of the vessels. That is the rational conclusion that one would make.

**Luke van Beek:** I do not disagree with you. As I say, I did very little work apart from around the programme of 801 and 802.

**Jamie Greene:** Is it any surprise that CMAL was uncomfortable with the fact that it had a £97 million price tag for the building of the ships yet the Scottish Government had conceded that the cost would overrun by, at that point, £45 million? The relationship that you had with CMAL would undoubtedly be difficult, because you were undermining the £97 million design and build contract that it had agreed.

**Luke van Beek:** I do not agree that I had an understanding that the £45 million-worth of loan meant that there would be a £45 million overrun. That was not my understanding of the situation. My understanding of the situation was that the £45 million of loans—I was really involved with only the last £30 million—was about keeping the yard viable to deliver the contract.

It is also true to say that it became very apparent during the latter part of 2018 that there was going to be a cost overrun—there was no doubt about it. That became the subject of an acrimonious debate between Ferguson and CMAL, but I do not really see the relationship between my being engaged by the economic development directorate and any difficult relationship that I might have had with CMAL. I tried very hard to have a relationship with CMAL, but it clearly did not want one.

**The Convener:** I have been through the PWC monitoring report on the financial positions, as have most members, I am sure. “Poseidon” is an odd name—it seems bizarre. I cannot see reference to your reports in the PWC report. If PWC was advising on what moneys should be released and on the cash-flow situation at Ferguson Marine, do you not think that your report should have formed part of its report? Was there joined-up working between the two?

**Luke van Beek:** I would not say that there was joined-up working. I met PWC on several occasions, and we talked through what was happening, but there was no attempt on my part, nor on PWC's, to do it together. My understanding was that the bringing together was done in the economic development directorate.

**The Convener:** If the directorate was talking about drawing down moneys, I would have thought that it would rely on what you were finding on the yard to see whether it was actually relevant.

I do not mean to be difficult, but the problem is that, with 20 pages of redacted information and half a page of non-redacted information in one letter alone, it is difficult to get to the bottom of that. Do you think that your monthly or six-weekly reports on what was happening at the yard should have formed part of the decision making at PWC, which was then advising Government agencies?

**Luke van Beek:** My understanding is that it formed part of the decision making on economic development, not that of PWC.

**The Convener:** Thank you.

I know that Stewart Stevenson wants to come in, but—I am sorry—we are really up against time and I have to try to get all members in.

**Emma Harper (South Scotland) (SNP):** Mr van Beek, you talked a bit about how the relationship between CMAL and Ferguson had broken down. I am interested in how it started out. On your first entry to the site, what was your initial assessment of the relationship? In subsequent reports, you noted that the relationship seemed to be deteriorating, and in one of your quarterly reviews you said:

“The re-baselining of the programme and the development of the risk register presents an opportunity to change the relationship with CMAL by involving them in the programme and risk debate. If this is to work it must be as a willing partner rather than the adversarial situation that appears to exist currently. This would allow for some ‘give & take’ which is essential during the commissioning phase.”

Will you tell us a little about the relationship and what was exhibited as it deteriorated?

**Luke van Beek:** When I was first engaged, I suppose that I did not really have much visibility of the relationship, but by September 2018 it had become apparent to me that there was a difference of view between CMAL and Ferguson about what was possible and what would be achieved.

As the year progressed, it became much more apparent that CMAL had no interest in compromising on a number of things. For example, the ships are dual fuel—liquified natural gas and diesel—but it was pretty apparent that if the first ship, 801, met the July 2019 operational date, the infrastructure would not be in place to bunker LNG. LNG could have been got on board from a road tanker from the south of England. However, LNG is not an easy fuel and is quite dangerous in a maritime environment, so it needs careful bunkering. That infrastructure was not in place.

Therefore, among other things, I suggested that there was little point in commissioning the LNG system at that stage—and, if people had held off commissioning the LNG system, that would have saved time, which they were trying to do at that

point. My suggestion was absolutely rejected out of hand by CMAL, even though it was obvious that the LNG system would have to be recommissioned when the bunkering arrangements were finally available.

I also suggested that all design changes be frozen, again to ease the problem that Ferguson was having in dealing with the design changes that CMAL was still putting forward. CMAL initially agreed to the freeze but subsequently reneged on that and kept giving Ferguson design changes. When I raised that matter with Transport Scotland, Transport Scotland said that CMAL had said that it really had no choice, so I never really got a satisfactory answer on that. However, at some point, CMAL had undertaken not to offer more design changes.

Those examples are symptomatic of how badly the relationship went. When we were in the difficult situation of trying to decide on a way forward, I advocated for and negotiated a way out of the difficulty that FMEL was experiencing, but the proposal was rejected out of hand by CMAL, which said that it had no interest in it and thought it better that Ferguson should go into administration. I had some very difficult meetings with CMAL and saw at first hand that it really had no interest in compromising.

10:45

**Emma Harper:** The issue about LNG and dual fuel is not a brand new one. I am aware that there are LNG vessels on our oceans—more than 300 were made by a company called Wärtsilä. Is LNG perceived as difficult?

**Luke van Beek:** The first use of LNG in a ferry in the United Kingdom caused a design challenge. On top of that, there was a commissioning challenge: commissioning an LNG plant with no infrastructure available and having to train the crew were things that would complicate the programme. In my view, that was unnecessary, because using LNG in the first year of the ferry's life would have been quite difficult—it is important to remember that.

I do not disagree that, particularly in Scandinavia, LNG has fuelled ferries for some while. There are quite a few LNG vessels—particularly ferries—and Canada has some too, but LNG is new to the UK.

**Emma Harper:** Surely, in the world of shipbuilding, which is probably not huge, you share knowledge and people learn from each other—you know what is going on across the world.

**Luke van Beek:** That is a nice thought, but it does not happen particularly well.

**Peter Chapman:** You are recorded as having advised the cabinet secretary, Derek Mackay, that Transport Scotland should assume responsibility for the delivery of hull 801 and should involve CalMac Ferries in decisions on the programme and delivered capability. Why did you recommend that?

**Luke van Beek:** There were a couple of reasons. I had a meeting with the previous chief executive of CalMac, during which he told me that the two ships 801 and 802 were not the ships that CalMac wanted. In particular, CalMac did not want LNG fuel. First, I felt that, by getting CalMac more involved in the process, there would be a much quicker resolution of issues around some of the design aspects of the ship. Secondly, it was apparent to me that CalMac had a huge interest in getting the ships operational as soon as possible. That is why I thought it was sensible to get CalMac involved.

When I met the chief executive of CalMac, I was very surprised to discover that it was not and had not been involved, except in having made some observations right at the beginning of the process, when it had said that it did not want LNG ships.

**Peter Chapman:** Were there other aspects of the design of the ships that CalMac did not want, apart from the LNG issue?

**Luke van Beek:** CalMac did not mention any specific aspects of those ships, but it mentioned the problem that it had with training its crews on a variety of different vessels. That was all.

**The Convener:** Many committee members want to ask questions. To ensure that everyone can ask their question, I am having to be careful with time.

**Richard Lyle (Uddingston and Bellshill) (SNP):** Correct me if am wrong, but I think you said that payments were based on milestones that were too far apart.

**Luke van Beek:** Yes. In my view, the milestone payments were too far apart.

**Richard Lyle:** Would you agree that that was the main reason for the cash-flow problem?

**Luke van Beek:** Yes.

**Richard Lyle:** Fine. I just wanted to get that on the record.

From your vast experience in shipbuilding and procurement, what lessons do you think CMAL should learn from this project to inform any future ferry procurement? What advice would you give?

**Luke van Beek:** Dear me.

**The Convener:** Briefly, I would say.

**Luke van Beek:** Yes, briefly. As I said, if you are going to let a design and build contract, make

sure that you have a pretty good specification before you let it, and not one that requires lots and lots of things to be sorted out subsequent to the contract being let.

To be honest, I think that there is also a wider issue. I never really got an answer to the question that I asked very early in the process about why the ships were dual fuel. There was some talk about environmental friendliness and so on, but I never really got a sensible answer to that question. I saw that type of ship falling down because it did not seem to fit into an overall strategy for ferries in Scotland. What seems to be lacking is an overall strategy that says, for example, that we need six big ships, six medium-sized ships and six small ships, because that is the way it is to work.

As I understand it, the ferries in Scotland are difficult to interoperate. Their crews are not trained in the same way, so interoperability is quite a challenge.

**Richard Lyle:** Is that not the case because rivers have different draughts and the terminals are totally different?

**Luke van Beek:** Absolutely. Do not get me wrong—I do not think that the ships could all be the same. I am only saying that there needs to be a strategy that—reflecting the point that you just made—says that there are different ports. It must also say that Scotland needs to be consistent in the way that it buys ferries in the future, so that either the ferries will fit in with that infrastructure or the infrastructure will be amended to make it consistent in as many places as it can be. It must surely be a strategy that talks about the infrastructure and the ferries. That is what I would expect a ferry strategy to do.

**Richard Lyle:** You would advise that we look at what size of ferries Scotland needs and whether to build big ones or small ones.

**Luke van Beek:** Yes.

**Richard Lyle:** Thank you.

**Jamie Greene:** By March 2019, the relationship between the customer and the shipyard had broken down quite severely. Cash flow was an issue. There were problems with change management, work was slowing down and progress was not being made.

At that point, three options were available to the Government. It could have retendered the contract, put the yard into administration or arbitrated to settle what was, at that point, almost a legal dispute. In your recommendation to Derek Mackay in March 2019, it was your opinion that

“Arbitration offers the lowest price increase and shortest time delay to ferry delivery”,

but you have just told us that CMAL wanted the yard to go into administration. Why do you think that he chose that route instead of your advice?

**Luke van Beek:** I am sorry, but I have no idea why he chose that route. It was against my advice. I do not know why he chose it; he did not tell me why. I gave the advice, and it was not taken.

**Jamie Greene:** What do you think were the consequences of that decision? Why did you think that arbitration would have led to a better outcome for the yard than going into administration? What consequence did administration have for the yard and its future abilities?

**Luke van Beek:** I estimated at that time that there would have to be an increase in price, and, without being too specific, arbitration would have led to an awful lot less of an increase than seems to have happened as a result of administration. I said at the time that, as far as cost was concerned, a negotiated way forward would produce a better outcome, both in cost and time, than putting the yard into administration, which would cause significant delay, the loss of the lessons that were learned and a badly broken continuity of workforce. That was why I recommended a negotiated way forward.

My personal experience of negotiating my way out of those sort of contracts came to bear. Without wanting to bore the committee too much, I managed to take £800 billion out of the type 45 destroyer programme through negotiation. I knew how to do that and that it would work.

**Jamie Greene:** Were you surprised that your advice was ignored?

**Luke van Beek:** Yes.

**Maureen Watt:** You said that you mostly had experience of defence contracts—you managed to turn things around and save money on such a contract. Have you had experience of other vessel building contracts?

**Luke van Beek:** I have worked in information technology quite a lot, which is a different environment.

**Maureen Watt:** You have not worked with other private shipbuilding companies.

**Luke van Beek:** No.

**Maureen Watt:** My understanding is that 801 and 802 used a type of shipbuilding contract that is globally used in relation to the vast majority of ships.

**Luke van Beek:** I do not have any problem with the fundamental contract that was used.

**Maureen Watt:** You also said that CMAL did not want dual-fuel ferries. What evidence have you got for that?

**Luke van Beek:** I said that CalMac—not CMAL—did not want to fuel ferries.

**Maureen Watt:** What evidence do you have for that?

**Luke van Beek:** I met with the CEO of CalMac in October 2018 and he told me so. An official was with me at the time, and they can bear that out.

**Maureen Watt:** Did you take that forward in any way?

**Luke van Beek:** I dropped a note to Mary McAllan at the economic development directorate, in which I said that I had been surprised to discover that in the meeting with CalMac.

**Maureen Watt:** What lessons can be learned from the Davie case in Canada that could be applicable to the delivery of CMAL ferries?

**The Convener:** There might be a lot of lessons, but we do not have a lot of time to go through them, so a couple of salient ones would probably do.

**Luke van Beek:** As you rightly say, the Davie case has a lot of similarities with the Ferguson Marine case. The parties that were involved in the former negotiated their way out of the situation, with a 30 per cent increase in cost and a year's increase in time. The lesson is that a negotiated settlement can work.

**Maureen Watt:** Was there any attempt to negotiate and come to an agreement in the case that we are discussing today?

**Luke van Beek:** CMAL absolutely refused to consider that.

**The Convener:** I am keen to let Stuart McMillan ask a brief question.

**Stuart McMillan (Greenock and Inverclyde) (SNP):** You mentioned earlier that you spent some time in the yard. On your visits, you walked around the yard for a couple of hours. Did you have discussions with CMAL at the time? Did CMAL representatives ever raise their concerns with you directly about the contract processes?

**Luke van Beek:** I never met CMAL in the yard; I always met CMAL separately, and I think that every time that I met CMAL, it was in a Scottish Government meeting.

11:00

**Stuart McMillan:** Did CMAL ever raise concerns with you about the production processes?

**Luke van Beek:** Absolutely. When I had those meetings with CMAL, it raised a number of concerns and those concerns informed my next visit to the yard. However, I was not privy to the reports that CMAL wrote to Transport Scotland. In hindsight, it would have been useful to see those reports because I could have seen what CMAL was saying. CMAL got to see what I was saying via Transport Scotland.

**The Convener:** I have a couple of quick questions. We were told by the Government that the 801 ferry, the Glen Sannox, would be delivered in October to December 2021. Is that a reasonable target?

**Luke van Beek:** You could certainly put together a programme that would deliver in that timescale.

**The Convener:** I seem to remember the aircraft carrier steaming around for a long time after delivery doing sea trials, when all sorts of problems were identified. If the programme is put together and adhered to and those ferries are delivered in that timescale, will they have completed all their sea trials and be fit to go straight into service on that date or are we looking at a service date that is later than the delivery date?

**Luke van Beek:** The programme that Ferguson's was working to included sea trials, so the operational date would be after those sea trials. If I have any reservation, it is about the use of LNG because the commissioning and trialling of the LNG system may well be a challenge. The ferries will certainly be able to go to sea and operate on the route using diesel.

**The Convener:** So, all things aligning—which has not happened so far—that delivery date is achievable?

**Luke van Beek:** Yes.

**The Convener:** I am afraid that that is all we have time for. Thank you for your evidence.

11:02

*Meeting suspended.*

11:10

*On resuming—*

**The Convener:** I welcome everyone back. Good morning to those who have just joined us.

There have been a couple of amended agendas, and the agenda has changed yet again since the papers for this meeting were published on the website. Committee members are aware of that. The changes are the result of a relaxation of non-disclosure agreements, which has allowed

witnesses to feel comfortable to attend. I am grateful that that has been allowed as a result of the work that the committee has done.

I welcome the second panel. Jim McColl is the former director of Ferguson Marine Engineering Ltd; Gerry Marshall is the former chief executive officer of that company; and Chris Dunn is the former chief naval architect of the company.

Mr McColl, when you acquired the shipyard, you invested a huge amount of money in it and in building infrastructure there. Was that in the expectation of a variety of contracts? Will you explain what those were?

**Jim McColl (Former Director, Ferguson Marine Engineering Ltd):** Before we bought the yard out of administration and decided to make that investment, we undertook a market study of the opportunities and looked at the addressable market for sea-going vessels. I thought that, looking forward, there was an exceptionally strong market because of the age of the Scottish ferry fleet and the fishing vessels. I considered other ferries as well as CalMac ferries. A few weeks ago, I was in Orkney, where there were two breakdowns. One of the ferries was 46 years old. There was good demand. It was the last commercial shipyard, and there are a lot of good skills in Scotland—its skills set is very strong. I thought that there was a good business opportunity.

**The Convener:** So that was in expectation of future work rather than with knowledge of future work.

**Jim McColl:** Yes.

**Mike Rumbles:** Good morning, panel. I want to start right at the beginning. I am particularly interested in how Ferguson's bid for the tendering process for the two ships was developed. In the evidence session last week, I asked Roy Pedersen why

"Ferguson's, with the highest specification and the highest price, got the contract."

You will be aware that he replied:

"I do not know the answer, but three things spring to mind. One is incompetence; another is vested interest; and the final one is corruption. If somebody else can think of other answers, they can give them."—[*Official Report, Rural Economy and Connectivity Committee*, 29 January 2020; c 23.]

This is your opportunity to respond to that.

**Jim McColl:** I am not sure what Roy Pedersen meant by "vested interest" and "corruption" or who he was referring to. Was he referring to the Government, Transport Scotland or CMAL? I do not know.

**Mike Rumbles:** Why do you think your company won the contract?

**Jim McColl:** We were asked to bid in an open bidding process under European procurement rules, and we worked very closely with CMAL on the development of the specification. We were asked to work with it in the invitation to tender. I think that the wording was that we had to work with it on the project in an “innovative and collaborative way”. That was in the tender. It was recognised that new technology for CMAL was involved and that we would have to work in an “innovative and collaborative way”.

I understand that there is a points system. Awarding the contract is not all about price. I do not know whether our price was the highest. Maybe Mr Pedersen knew that, or somebody else might know that.

**Mike Rumbles:** May I help out on that very point? Paragraph 11 of the letter dated 20 August 2015 from the Transport Scotland ferries unit to the Cabinet Secretary for Infrastructure, Investment and Cities says that the contract value of £96 million—your bid—is higher than the £80 million included in the vehicle replacement plan,

“which will be updated prior to publication—and the revised estimate of £90m included in CMAL’s 3-year Corporate Plan, which has already been published.”

In other words, the plan was already in the public domain when you put your tender in. At £96 million, your tender was higher than what you must have known was the budget for the boats. Can you enlighten the committee about whether that was the case?

11:15

**Jim McColl:** From the outline specification that we had, we built up a cost model for what it would cost to build the ferries. It was actually more than £100 million, and we were negotiated with to get that down. We could not see how we could do it for less than £100 million, and we took the decision to offer at cost and make no profit on the work, so that we could use it as a good reference for future orders. The £96 million was based on a cost build-up that we provided. We did not take part in the decision on who won the order. You would have to ask the people who made the decision why they made that decision.

**Mike Rumbles:** It is only fair to put to you the question that I asked last week’s witnesses, to give you an opportunity to comment. Paragraph 17 of the letter that I have just mentioned, which recommends that your bid be accepted, says:

“As with any procurement, a legal challenge from one of the unsuccessful shipyards cannot be discounted. CMAL have not identified any particular risks in this regard and, in any case, are confident that any challenge can be

defended. That said, the relationship between Scottish Ministers and Ferguson’s owner is well known.”

Why would that have been mentioned in the letter?

**Jim McColl:** I do not know.

**Mike Rumbles:** Last week, I asked Mr Pedersen why Ferguson’s was chosen, and he said:

“I do not know the answer”.—[*Official Report, Rural Economy and Connectivity Committee*, 29 January 2020; c 23.]

I am not putting words in his mouth—those are the words that he used when I asked him that question. Do you know why?

**Jim McColl:** I am not aware why. That gets brought up many times.

**Mike Rumbles:** Okay. In that case, I will end with one more question. We have just heard evidence from Luke van Beek, who said that the problem was the contract that was awarded to you, which he said was “let too early”. There is a recommendation in the letter from Transport Scotland to the infrastructure secretary that says that yours is the highest bid. The other six yards are redacted, so nobody on the committee knows which other yards were involved.

Mr van Beek said that the specification of the vessels should have been agreed before the contract was agreed, which implies that the contract between you and the Government—or Transport Scotland, or CMAL—was rushed before it was completed. I know very little about the commercial world of shipbuilding, although I am getting to know a lot more about it now. When you put in a bid to meet a tender, you must be aware of which of your rivals are also putting in bids. Do you know which shipyards the other shipyards were? Did you have any indication of the bids that they might have been putting in?

**Jim McColl:** No, we did not have any indication of the bids that they might have been putting in. I would have bet on knowing three that would have put bids in: Remontowa in Poland, Flensburger in Germany and—probably—Cammell Laird down south. My judgment at the time was that Remontowa and Flensburger might be a bit reluctant to bid because of two other ferries that they had built. It was said earlier that CMAL had built ferries before and had not had any problems. In the CMAL era, we have had problems. Before that, when CalMac worked with experts and placed the orders, it was quite smooth. Remontowa went into administration after building MV Finlaggan, and Flensburger went into administration after building MV Loch Seaforth. Both vessels had to have work done on them after they left the yards. Those yards had problems with



bids that they had done before, so I thought that they might be a bit cautious next time. I know that Flensburger requested an additional £10 million and eventually that had to be taken away from it. We do not know the final price.

**Mike Rumbles:** You can see where my questions are coming from. From the evidence that we have received, it strikes me that things have gone wrong right from the beginning of the tendering and contract process.

**Jim McColl:** I agree. We would normally expect the specification to be more fully fleshed out, with most of the risks taken care of beforehand. That is the way that it used to work when CalMac did the work directly, pre-CMAL. It would probably spend about a year with a consultant ironing out all the issues before issuing the specification.

**Mike Rumbles:** I do not want to put words in your mouth, so correct me if I am wrong, but are you saying that, in your view, the contract that you entered into was far more rushed than normal?

**Jim McColl:** Yes.

**The Convener:** On that specific point, paragraph 7 of the letter that Mike Rumbles referred to says that

“the vast majority of the issues identified by CalMac”

had been

“resolved”

between you and it and that most of the other issues had been resolved as well, with

“a final review of documentation”

to be

“complete on 25 August.”

Is that untrue?

**Jim McColl:** I am sorry, but I am not sure what—

**The Convener:** You said that the contract had been rushed and that the specification was not mature.

**Jim McColl:** It was not mature; that is right.

**The Convener:** What is said in paragraph 7 of the letter, which has a recommendation to the minister, is that it was mature and that a final review by CalMac of the documentation, which you had resolved with it, was due on 25 August. The indication is that everything was hunky-dory.

**Jim McColl:** I do not understand that, because |—

**The Convener:** Would you dispute that? A yes or no would do.

**Jim McColl:** When we entered into the process, we were under the impression that we had to work closely with CMAL to develop the specification, and that had to be done in a collaborative way. Initially, we worked in that way. There was a change of managing director in CMAL, and very soon thereafter we found complete hostility and intransigence in discussing things, similar to what Commodore Luke van Beek experienced.

**The Convener:** So the detailed specification designs, which would form part of the shipbuilding contract, were nowhere near completion on 20 August 2015, whereas the letter seems to imply that they were.

**Jim McColl:** They were not.

**The Convener:** Thank you.

**Jamie Greene:** Good morning, gentlemen.

For the benefit of the committee, could you tell us where the figure of £96 million came from? Was that what you thought you could build the ships for, or was that the number that you were told you should build the ships for? Did you think that it would be enough? If not, why did you take on the contract?

**Jim McColl:** We were at around £105 million, and CMAL was negotiating with us to try to get it down to £97 million. There were a couple of things that we could have done. A lot of the equipment was to be purchased in euros, so one of the negotiating items that we were looking at to get the price down was to get CMAL to take responsibility for foreign exchange. However, before we came to any agreement, the First Minister announced that we had been selected as preferred bidder and that the price was £97 million, or £96.8 million. CMAL then came back to us and said that it had been announced by the First Minister, so we would just have to accept it, and that it was not going to negotiate with us on the foreign exchange aspect.

**Jamie Greene:** I will clarify something, because that is new information. Are you saying that, during the negotiation of the price, the First Minister made an announcement dictating what the price would be, and the client—CMAL—therefore said, “I am afraid that that is what you’ll have to build it for”?

**Jim McColl:** CMAL was negotiating with us to get the price down to £97 million. We were in negotiations, and we could see ways that we could get it down. However, I believe that CMAL must have communicated to the First Minister that it had a way to get the price to £97 million. The contract was announced at £97 million and we were told that, because it had been publicly announced, we were stuck with it. We then set to work on how we could save it. Although we had set out to do it at

cost, we were prepared to take a small hit to have the contracts as a good reference.

**Stewart Stevenson:** I am slightly puzzled, because we are referring to a letter and a whole set of documents that the Government published on 3 October, which I am not sure that Mr McColl has seen. Have other members of your team seen them?

**Jim McColl:** Probably not.

**Stewart Stevenson:** As the senior person, I would not necessarily expect you to read them all in detail. I just hope that you can say that everybody else has read them, in particular because I think that Mr Rumbles may have misrepresented paragraphs 11, 12 and 13 on finance, which do not say that you had the most expensive bid. It might have been that you did—I do not know—but those paragraphs certainly do not seem to say that.

My question is a very simple one. You are expressing some concerns about the nature of the contract, which I respect and understand. We are very grateful that you rescued the yard in the first place—let us start on that point. However, why did you sign a contract that you had concerns with?

**The Convener:** Before we go on, there is some confusion here. It is paragraph 6 of the letter that is critical, which I will read out:

“It was made clear to tenderers that the quality/price ratio for assessment of proposals was 50:50. FMEL was the highest quality bid received but also the highest price. Taken together, the FMEL tender achieved the highest overall evaluation score”.

**Stewart Stevenson:** In that case, I apologise on the record to my colleague Mr Rumbles—I got it wrong.

**Mike Rumbles:** I accept your apology.

**Jim McColl:** At some point during the bidding process, I believe that we were aware that a Turkish yard was bidding something just south of £70 million. Although I do not know where I got that from, I remember that there was a Turkish yard that was discounted from the process, perhaps based on the quality of its bid—I do not know.

**Stewart Stevenson:** Let me go back to my substantive question. You are expressing concerns about the contract. If you had concerns, why did you sign it? I have signed contracts of that kind of order.

**Jim McColl:** I signed it because of our previous experience. The first ship that we built for the yard—the *Catriona*—was the third of the hybrid series. Incidentally, the two previous ones were what put the yard into administration, which we bought it out of. By then, we had a fairly set

design. We did some modifications, but we worked very closely with CMAL. It was a different team, a different CEO and a different ship director, and we worked in a very collaborative way. We delivered it six weeks early and on target. We did it at cost, because we were trying to establish the yard; that is, we did it at no profit. We had a good working relationship.

When we were making the bid, we were told, “Don’t worry about the spec—we’ll work together collaboratively on this.” I took a judgment that the management team could work with CMAL in a collaborative way. In addition, I was always of the view that we might have to take a bit of a loss on it, although I thought that it would be manageable.

**Stewart Stevenson:** So you deliberately—and perfectly within your competence—decided that you would carry that risk, because of existing relationships that you thought you could make work.

**Jim McColl:** And because of a quantification of the risk—an assessment of the risk in financial terms, for example.

11:30

**Maureen Watt:** It is important that we get an idea of certain basics at the outset. The contract was a design and build contract; is that correct?

**Jim McColl:** That is correct.

**Maureen Watt:** My understanding is that Houlder Ltd did an outline conceptual design, on which basis the contract was agreed.

**Jim McColl:** That was the basis on which the broad specification was agreed.

**Maureen Watt:** You then have the basic design and the detailed design. Was that process taken in-house and taken forward by your own in-house designers? Houlder Ltd might normally be expected to take that forward.

**Jim McColl:** We kept Houlder on for a period and then engaged Vera Navis, another design house, for more resource to go into the development of the detailed design.

**Maureen Watt:** So Vera Navis was doing not just the 3D designs but more detailed stuff.

**Jim McColl:** Yes. The company eventually did more design work.

**Maureen Watt:** As far as I could notice, Vera Navis does not have any ferries listed on its website as part of the things that it has worked on. Why did you go with a company that had no previous experience in ferry design, when other companies around the North Sea, in both Scotland and Norway, have more experience with that?

**Jim McColl:** Chris Dunn could perhaps comment on design matters and on Vera Navis's capability.

**Chris Dunn (Former Chief Naval Architect, Ferguson Marine Engineering Ltd):** As you would expect, there were many elements to the tender process for detailed designs from contractors: price, working relationships, delivery, timescales, and manpower were important ones. Experience was also important, and Vera Navis had a lot of experience of working on the detail of production design of ferries in Norway. One of the biggest elements was the software that we had elected to use at Ferguson's a year previously: Vera Navis is the European expert in deployment, training and management of the ShipConstructor software, and that fit in very well with our goals and ambitions—we had no doubts.

**Jim McColl:** The software is called ShipConstructor. The people at Vera Navis are competent, with very good credentials, and the choice was a good one.

**Maureen Watt:** Changes are talked about a lot. As you move from conceptual design to basic design and then to detailed designs, you cannot have changes, because you have not agreed to what you are working with in the first place.

**Jim McColl:** That was the problem. Changes kept coming in from CMAL. Things evolved as we went through the process.

**Gerry Marshall (Former Chief Executive Officer, Ferguson Marine Engineering Ltd):** When we put in the bid, we were bidding on the specification that we were given at that time. The critical part is that that specification changed. When I went into the facility to take on the role in March 2017, and looked at both general arrangement drawings, hundreds of changes had happened from what we had bid against to what we were now working on.

**The Convener:** I am nervous because a lot of questions are coming up on changes, but this bit is more on specification.

**Gerry Marshall:** Chris Dunn can maybe give input on that as well. When you first put in a bid, you have a specification. One of the big specifications—for the propellers—had changed significantly. I heard earlier about why the vessels were not being built together, side by side. I am perhaps jumping ahead to when you go into the build schedule and the build plan, but that all changed because the specification for the propeller design had changed from the original spec.

**The Convener:** That definitely gets us into changes, which I would like to come on to, but we will drill down on this a wee bit more. A few

members have questions and you will definitely get a chance to come back on that point.

**Mike Rumbles:** A lot of evidence has been given on the procurement process. As I have said, this has gone wrong right at the beginning. I want to ensure that I heard Mr McColl correctly. Did he say that, without his agreement, the First Minister announced a price that Ferguson's would build the vessels for, and that she awarded the contract even though, according to the letter—the tender document here—the Government had already turned down bids that were all below that figure? Given that you were in negotiations, did it come as a surprise when the First Minister announced the agreement for you to build the boats for £97 million? Are you saying that that was not agreed with you?

**Jim McColl:** CMAL was not negotiating with me; it was negotiating with the yard. The person who was engaged in the negotiations was still in discussions with CMAL about how it could move from our price—we had come down from £105 million to about £103 million—and we were looking specifically at the foreign exchange contract; CMAL had agreed verbally that it would take responsibility for that.

**Mike Rumbles:** I am just a little bit confused. I want to ensure that I understand the exact process. Was that after you had been confirmed as preferred bidder? The letter of 2015 says that your bid was £96 million.

**Jim McColl:** I think that it was £96.8 million.

**The Convener:** There is a document on the Government's website that helps on this point. The original tender price was £50,247,500 for each ferry and there was a little bit more on top. The document says that that was later reduced to £48,500,000, which would add up to £97 million for two vessels. Those figures come from Government documents released in a letter from 8 October 2019.

**Jim McColl:** That is right. The figure that would take the total over £100 million was already down from our position. The last bit was a negotiation on the exchange contract. However, before we had formal confirmation that CMAL would accept it, the First Minister announced that we had won the contract for £97 million.

To be fair, CMAL had agreed that it would take it at that time, so you could say that there was agreement on the £97 million. However, CMAL then came back to say that it would not honour that agreement, because the First Minister had made the announcement and we had not changed the bid. That caught us by surprise.

Afterwards, we tried to win that back—it is probably in some of the documentation that you have seen and it is certainly in our claim.

**Mike Rumbles:** You could not have agreed most of the contract. The price was announced without agreeing the detailed specifications in the contract.

**Jim McColl:** That price was based on the specification that we had at the time. As we have said, it was not detailed at that time—there were still some open ends that we had to resolve collaboratively with CMAL.

**Mike Rumbles:** Luke van Beek has said that that is not what he would expect.

**Jim McColl:** Not normally.

**Mike Rumbles:** He said that the contract was let too early and that the specification of the vessels should have been agreed before the contract was agreed. That is the evidence that Luke van Beek has just given us.

**Jim McColl:** Absolutely. We agree with that.

**Mike Rumbles:** But it obviously was not agreed.

**Gerry Marshall:** The committee has to realise that we were given just eight weeks to work on the contract—not just us but everyone who was bidding for the contract at the time. I heard Luke van Beek's evidence and I am sure that he would acknowledge that that was a very short time. In the experience of the yard before 2006, when working directly with CalMac, the yard would work with CalMac for about a year on the specification of a vessel. That would then be taken forward and there would be little element of surprise in any specification. However, the specification that we bid on and the position that we are in now are significantly different. Eight weeks would never have been enough time—not just for us but for anyone who was bidding for those vessels.

**Colin Smyth:** You signed that contract even though you held the view that the specifications were not as detailed as you would have liked. What gave you confidence to do that, and what changed during the process that meant that you were unable to work through those specifications in a collaborative way?

**Jim McColl:** Continual additional changes coming from CMAL. Convener, is it okay for me to talk about changes?

**The Convener:** Yes, it is, but there is a question that I would like to ask before we go on to talk more about changes.

**Stewart Stevenson:** If it is helpful, convener, I am interested only in the process, not the changes per se.

**The Convener:** Okay.

Before we move on, one of the letters that have been released to the committee is dated October 2015—the exact date has been blacked out. It shows that on 25 September, CMAL was already flagging up concerns and reservations about the award of the contract. Mr McColl, were you aware that even at that stage it was not happy, it appears—

**Jim McColl:** Sorry—25 September of which year?

**The Convener:** No, it was October 2015. The board meeting had been on 25 September, barely a month after the contract had been announced, and CMAL was already deciding that it was unhappy with it. Were you aware at that stage that there was an issue?

**Jim McColl:** I was not aware, but I heard at the time—it was just say-so—that the chairman in particular was not supportive of the contract being awarded to Ferguson.

**The Convener:** We will now move to changes.

**Colin Smyth:** What changed after the contract was signed so that you were not able to work through the specifications in a way that suited all parties?

**Jim McColl:** CMAL was sending constant changes to the basic specification that we had. The changes were building up. Although the contract was fixed price, it allowed for variations to contract, but it got to a point where the changes were so significant that it was going beyond a new-build contract.

As was said earlier, the contract was a type that is standard in the industry; it is called a NEWBUILDCON. Such contracts are made for standard vessels, but it became clear that this vessel was a prototype vessel. We brought in some experts to review the contract who said that it was a prototype. Commodore Luke van Beek would view it as a prototype, our experts viewed it as a prototype and Lloyd's viewed it as a prototype—it was definitely a prototype.

A standard new-build contract should never have been used, given the changes that were coming through. We got to the point where there were just too many changes for us to take care of. We actually asked CMAL to freeze the design, because the committee was asking for updates on delivery and cost and we could not give those updates as we got into the contract, because changes kept coming—they are still coming. Unless we got a commitment from CMAL that it would freeze the design, we could not commit to a delivery date and costs.

**Colin Smyth:** You will be aware that Kevin Hobbs has said that there were 81 changes to the contract in total, of which 46 were required by Ferguson. I appreciate that his wording was very careful, in that he mentions changes to the contract rather than changes to the design, but do you dispute that figure? What was the scale of the changes that CMAL was asking of Ferguson? What was the cost of those changes?

**Jim McColl:** We have made a submission to the clerk, where it is all—

**The Convener:** Let me clarify this for the committee. Mr McColl is referring to a document that he has given to the clerk. The committee's position on receiving papers during a meeting is that they are held by the clerk and circulated to committee members after the meeting in email form. Thank you for the submission, Mr McColl. The committee members and I are not aware of what is inside it.

11:45

**Jim McColl:** Every change was documented by professional experts that we brought in. I believe that the committee visited while we were going through that process and saw the room where the changes were documented. It is all detailed here in our document. Nothing is redacted. You will see every breakdown. The breakdown here is for vessel 801 only. It totalled around £44 million at that time, and that was until August 2018. You will see every change documented.

There may be an argument that we have to take responsibility for some changes. I do not dispute that. However there were far more. There were hundreds of changes.

**Colin Smyth:** Of the more than £40 million-worth of changes, what percentage came from CMAL?

**Jim McColl:** They are all related to CMAL. It was part of a claim that we were putting together. They are all consequences of changes by CMAL. Much of that was down to delay.

**The Convener:** The committee visited the yard in October 2018. Not all members of the committee came. You gave us access to the room, but at that stage you asked us not to discuss that. You are now putting it on record. That is when we visited.

**Peter Chapman:** We have heard evidence from the turnaround director, Tim Hair, and we have looked at the review board report. I am sure that you are aware that the report is very critical of management at Ferguson Marine. It says that FMEL did not maintain adequate project plans or records management systems; that Ferguson Marine exercised a lack of management control

over design and construction subcontractors; that there was poor storage of materials and poor stock control; and that there was only ad hoc control of engineering change. Those are just some of the criticisms in the report.

Will you give us your thoughts on the report and whether it is accurate?

**Jim McColl:** I will give you my thoughts; perhaps Gerry Marshall will also comment.

Those claims are scandalous and we address every one of them in our submission. We had a very good project planning system in place. Since the Government moved in, it has, without a handover, got rid of all the senior staff who were involved in that. The project management team was being updated twice daily: the project was well controlled with every key member of the project team in the same room twice a day. Gerry Marshall put a good system in place. It was probably one of the best systems that I have seen, and we have used it in a number of businesses.

That system has been abandoned since the Government went in: there have been no project planning or project management meetings in the past six months. Tim Hair is right that there is no project plan in place, but it is grossly misleading and appalling to have a minister stand up in Parliament and defame the management by waving the report in the air when it is all absolute nonsense.

**Gerry Marshall:** I read those comments and I saw them being made on television.

In any quality management system there must be an audit process. If you are being audited, you have to meet criteria. We have received various ISO accreditations in the past two or three years. To get an ISO accreditation, there must be various management systems in place.

I draw the committee's attention to mention in our paper of the fact that we have been audited by CMAL. It had to audit certain areas, including our quality management system, and in both years in which it did that—it did not do so in 2018, because of where we were—we scored nearly 100 per cent. There were 10 different elements in the audit, and in 2016, we got an audit score of 97.5 per cent. The figure was similar in 2017. CMAL audited our processes continually.

On top of that, other naval yards audited us, and they gave us excellent scores in their audits. To say that we did not have a quality management system is ludicrous.

**Jim McColl:** You will see in our paper all the elements that CMAL assessed—for example, document management and change management. When you see the paper, you will see that a score of between 90 and 100 is "excellent". We got 96

point something and 97, and CMAL's naval architect commented that that was the highest score that it had given to a supplier. The paper covers every single area that Tim Hair damned when he talked about mismanagement. What has been said is outrageous. We have the evidence—it is all in the paper that is being supplied to you.

**Gerry Marshall:** I heard Stewart Stevenson talking earlier about project management and project control. We already had planning. I am sure that members will be aware that we created a war room in March 2017, in which we had daily meetings that were attended by ship managers, supervisors, people from Chris Dunn's team, engineering, supply chain and finance. We had those meetings at least once and often twice a day. We used Gantt charts and breakdown structures and we introduced short interval control, because of the continual change that we were encountering. The changes were a knock-on effect of the original specification. When I presented that to CMAL in July 2017, I said that their repercussions would continue until the ships were fully complete. That has proved to be correct.

We had a very robust quality management system. I do not know what has happened now. I left the business on the day that Deloitte came in. There was no handover, despite the fact that I offered support and offered to hand over any information that it wanted. I believe that my quality and health and safety manager and Chris Dunn experienced the same thing.

**The Convener:** Let us hear from Chris Dunn. You have worked in other yards. Do you agree with what Gerry Marshall is saying?

**Chris Dunn:** Absolutely.

I will ramble for a second, if I can. When we do concept development, we spend as much time as possible refining and de-risking the design. The specification will have very high-level statements—it is 260-odd pages of, "It will go at 16.5 knots, it will have a propeller, and it will have an LNG system." Only post-contract can preferred subcontractors be engaged. They can start delivering detailed information that can be subsumed into the design, which can evolve from that point.

At that stage, things can unravel. If you present a propeller, the response might be, "No, we don't like that." That "We don't like that" is not a change, as such, but it drives change. In a collaborative way, we might do something a little bit different that slows down production. Rather than being a nice design spiral, it becomes a vortex of pain, in which every change impacts on 10 other things. Once you have started building something, you find that there are things that you cannot change.

It is a very dramatic story, I know, but that very much underpins the process.

**Gerry Marshall:** With a design and build contract, you should be allowed to design without the interference that we had. Once you get a copy of our paper—the report from the specialists is in it—you will see that that was a big source of contention for us. Every drawing had to be signed off by CMAL. Trying to design when the customer has to sign off all the drawings is very difficult, and it slowed down the process significantly.

**Jim McColl:** We also never said that it was not a design and build contract. In addition, it was not strictly a fixed-price contract, because there was an opportunity for variations to contract. However, our claim was not about the ability to claim under the contract; our claim was that the contract was breached by CMAL because of the constant changes and the disruption that they caused, and the consequential impact on overall delivery and specification of the contract. Our argument is that the contract was breached.

**Peter Chapman:** I will follow up on that. The programme review board report maintains that there was no effective system in place to manage design changes. Basically, it says that although design changes were coming down the line, FMEL could not manage that and make it a success. The report—again—criticises you and your management team for being unwilling or unable to manage the process. What do you say to that?

**Jim McColl:** Before Chris Dunn comes in, I note that we had good design control, and that Chris had a very good system in place. However, CMAL would say, "We don't like that," about something, and we would get a request to change a design. We would tell them what we could do, but it would say that it did not like that, either. That becomes impossible to manage. Chris will comment on the design change process.

**Chris Dunn:** There are loads of reasons why a design evolves and changes as we go along. Some changes are absolutely driven by the customer walking around the yard and saying, "We don't like that." Some are driven by suppliers, and some are driven by class and flag; that is, the guys who regulate the design. All those reasons have a process within the shipyard. You take the changes, you take the notes, you send them off, you reply—there is a fully audited process for all of them. The real trouble comes when the sheer number of changes in every one of the processes becomes so great that they start crossing over and drive change in something that has already been signed off. You then have to loop right back, which impacts on everything else. At that point, change becomes very hard to manage, because it is not one single process or five individual processes.

**Gerry Marshall:** An example for the committee would be the question of passengers and seating. I think that we had 20-odd iterations of that going backwards and forwards—so much so that I ended up having to go to Arran to give an update to the ferry committee and people over there about why the ferry was delayed so long. We had iteration after iteration; every time we designed something and put it across, it was rejected and sent back, which put us into a loop that seemed to be never ending.

**The Convener:** I have looked at the Baltic and International Maritime Council contract, which is quite brief in some respects. On “carrying capacity”, clause E simply states:

“not less than 1,000 (one thousand) passengers;”.

In addition, although I do not know whether it is standard, the bottom of the BIMCO contract states—basically—that the specification shall be the specification in the contract and that, if there is a difference between the contract, the drawings and the requirement, the contract is what stands.

I am being very simple, so could you explain to me the specification for 1,000 seats? The contract does not, in fact, lay down whether those seats will face right or left or whatever. Why is there a difficulty?

**Chris Dunn:** The next stage in relation to the 1,000 seats was that we had to—as it says in the specification—employ a recognised interior architect, who would put forward the fabric, layouts, escape routes and everything else, which would then be approved by the customer. That became a very hard thing to do. We got an architect in place and we could get 1,000 seats in, but it did not feel like the cruise ferry it was supposed to be, so eventually there was a compromise—I think, for 930 seats.

**The Convener:** Are there only certain permutations?

**Chris Dunn:** You would be surprised—there are a lot of ways to put 1,000 seats in a ship.

**The Convener:** Was each of them looked at and changed, or whatever?

**Jim McColl:** The number was changed down to 938. Moving the seats required us to remove—I think—11 pillars that were already in place as structural supports, to recalculate the loads, and to put them back in elsewhere.

On the design, a question was asked earlier about the suggestion that 95 per cent of the basic design of the ferries has yet to be signed off. The design is probably 60 per cent to 70 per cent signed off. The suggestion that 95 per cent of it is still to be completed is nonsense. Statements are being thrown out that are just unsubstantiated. We

counter that in our submission, and we back up our point with evidence that substantiates what we are saying.

12:00

**Maureen Watt:** Is that 60 per cent to 70 per cent signed off by class and flag?

**Chris Dunn:** All of the primary structure that has been built has been signed off, and there are approved drawings behind it. Several of the many pipe systems have been approved and signed off, and others are in the process of being signed off. They are in the third or fourth lap, so they are likely to be signed off; we were just finalising the last few bits and pieces. We are at a good level across the piece, from structures to systems.

**Jim McColl:** There is one other thing to add in relation to the design. We have had three changes to what CMAL wanted in the engine room that have required piping changes. It wanted additional pumps put in, then it wanted them taken out, then it wanted them put back in in a different configuration. Fitting out all that delayed the contract by a year. The committee reads about pipes having to be scrapped: that was happening because of changes that had to be made during the process.

Chris Dunn might want to talk about the Axilocks, because that issue was raised as well.

**The Convener:** Before you address that issue, I will let a member ask a question, because they are queueing up to do so.

**Stewart Stevenson:** I suspect that my questions are not for Mr McColl but for the detail merchants who are sitting either side of him, because they are detailed questions about process, not tasks.

Accreditation has come up. For the record, can you confirm that you were referring to ISO 9001?

**Gerry Marshall:** Yes.

**Stewart Stevenson:** That would be the standard accreditation, so that is what I expected. I think that that accreditation is very paper bound, but there we are—that is just me.

We have talked about a project planning system or a project management system—I think that the terms are interchangeable. Is there a brand name for that? The civil service generally uses Prince2—projects in controlled environments—methodology, which I do not like very much.

**Gerry Marshall:** We do not use Prince2 at the yard.

**Stewart Stevenson:** Thank you for that.

**Gerry Marshall:** I have used Prince2 and think that it is overcomplicated. We use Excel spreadsheets and short interval control. We also use Primavera—that is a brand name.

**Stewart Stevenson:** Were you buying in Excel spreadsheets that were fit for purpose, or were you building them ad hoc? If it was the latter, I venture to suggest that that is a slightly unusual approach to doing such tasks.

**Gerry Marshall:** No. We had proper work breakdown structures, and all the plans and everything else were in there. We created what we called a war-room environment. The project management was detailed and was reviewed every day.

**Stewart Stevenson:** Did you have someone—who I would call a project office manager—whose task was, essentially, administrative?

**Gerry Marshall:** Yes.

**Stewart Stevenson:** I expect that that person would ensure that, in relation to change, things were being received, recorded and reviewed and then disposed of: that is, the person would either kill something by saying that it was not going to be done, or allocate the task to someone. Did you have someone like that at process level?

**Gerry Marshall:** Yes.

**Stewart Stevenson:** I am not talking about someone who necessarily had an understanding of shipbuilding. Did you have someone performing the functions that I am talking about throughout the whole process?

**Gerry Marshall:** Yes. That person dealt with the spreadsheets, with the work breakdown structures and with the challenges that arose around that.

**Stewart Stevenson:** We are getting different stories from various players. Others are telling us, in particular, that changes were not recorded.

Mr McColl and others present have said that there were too many changes requested. However, as someone who has been a project manager at this sort of scale, I know that there is almost nothing else that matters in projects apart from change. I have had projects with 5,000 changes—that was in a different environment, with different expectations regarding change, so I do not want to make a comparison, because it would not be particularly valid. Is it fair to say that change is always the most difficult and challenging part of big projects?

**Gerry Marshall:** I think that significant changes are the most difficult and challenging parts of any project. You have to deal with the knock-on effects of changes and, when there are multiple changes, the full knock-on effects are sometimes not known.

We tried to conduct some root-cause analyses, but things always came back to the issue that has already gone around the table quite a bit, about things not being correct at the concept stage. Time and effort could have been spent at the concept stage to make sure, for instance, that the propellers were correct. That issue went on for almost a year into the design of the contract and dictated what we could do and the build strategy.

One of the big impacts was that the bunkering location on the ship was moved aft. In principle, from looking at a drawing, it was possible to move the bunkering location, but we also had to think about pipes and their declivity and how they got through bulkheads. We had also to think about the knock-on effects of that.

**Stewart Stevenson:** Your answer is probably taking me to where I need to get to. For you as the supplier, in many contracts lots of change is good news, because you would expect changes to be priced and you would therefore be rewarded for making them. Did that not work in this instance? As a project manager, I would not have accepted a change unless the customer had agreed to the financial consequences of that change.

**Gerry Marshall:** There are a few aspects to that. When we signed the contract, the aim was to work in a collaborative way, and we started in that way. The idea was that we would go through the journey together and that it would have its ups and downs, but we would work together.

We recorded some of the initial changes—I have already been through that. When we gave the first update to CMAL in July 2017 on what we had found, the difference in the general arrangements and the changes that had been made, it became apparent that we were going to get a lot of kickback from that, and we started to talk to the Scottish Government and to pull together the reports. We believed that our reports and what we had identified would result in a contract price change. When members get a chance to go through the report, they will see that everything is detailed in it.

**Jim McColl:** It was a design and build contract, which meant that we had the right to design. A customer could come back and say, “I do not like that. I do not like the colour of it. Change it.” We refused to make a lot of the changes. They are now being called remediation, so it looks like there is a lot of remediation. However, we had CMAL in the yard with a free hand running around making all the changes that we had already said there could not be. We had the right to design, and our design was proper and fit for purpose and met the specification. If someone constantly comes back saying, “No, we do not like it. Change it,” that is very difficult to manage.



**Stewart Stevenson:** Yes, but is that not precisely the job? I have sat where you are sitting, so I know exactly what is being referred to. At the end of the day, you are the ones who did the building—no one else.

**Gerry Marshall:** Most of the significant impacts were very early on in the contract. I keep coming back to the propellers and the bunkering, but there are many more examples, as members will see when they go through the report. There were knock-on effects—I will call them unforeseen consequences—from the initial changes.

**Stewart Stevenson:** Who should have foreseen those consequences?

**Gerry Marshall:** If we had done the work up front at the concept design stage, that is when they should have been caught. We should have gone through the whole concept and taken the time to prove it before launching into it. That applies to all parties.

**Emma Harper:** I would like clarification on the number of passengers. I thought that the number of passengers was determined by the number of cars, lorries and foot passengers, so the lorry or car space in the lower decks would determine how much passenger seating was needed. Chris Dunn said that about 100 passengers were originally—

**Jim McColl:** It was 1,000.

**Emma Harper:** I am sorry—I meant 1,000 passengers. That went down to 930. The upper-deck planning, design and building would happen later in the process. You would worry about the lower decks first, as you would do with the floor and the walls of a house before the roof was put on. Will you clarify why the change from 1,000 to 930 passengers was such a big issue when the rest of the design had not been finished?

**Chris Dunn:** Like all things in ship design, every single element of design affects every other single element of design. I do not know why the requirement specification was 1,000 passengers and 127 cars. Someone else did that work; our job was to provide a ship that held 1,000 passengers.

Such a change affects design, because it affects the size of the stairs and how many people go up and down them, evacuation analysis, where the muster stations are, where the lifeboats are, and all the other things that simply cannot be moved later on in the process. It affects the interface with ports, where the doors are along the side of the vessel, and where that aligns structurally with all the fire separation boundaries. That is all interconnected. The difference between 1,000 to 930 passengers is a big number, and it changes things: it moves galleys, bulkheads and pillars and all the things that need to be pinned down early in the process if we want to push forward.

**Emma Harper:** The passengers would use the same stairs and approaches to the decks, whether they were going up or down.

**Chris Dunn:** No. A lot of the passengers would come in from the passenger access and embarkation system. They would walk straight up. It is not only the car passengers who would come up the four different stairwells and in the four different passenger lifts. That is an awful lot for a cruise ferry, but we did that work anyway. Most of the walk-on passengers would actually walk on.

**The Convener:** Just for clarity, the specification that was laid down in the original contract was for 1,000 passengers, a minimum of 127 cars and 16 heavy goods vehicles.

**Peter Chapman:** I have a very specific and important question. How come the bulbous bow on MV Glen Sannox is now seen to be completely wrong and needing to be removed and replaced? How did that happen?

**Jim McColl:** The bulbous bow was made for and put on the Glen Sannox. It is a perfectly good bulbous bow, but it does not look good aesthetically. We got a second bulbous bow made that looked much better aesthetically, because we did not want people looking at the ship and saying that it was ugly. Our plan was that, when the ship went into dry dock, as it would have to, we would take off the old bulbous bow and put on the nice new fancy one. There was nothing wrong with the bulbous bow. It was not scrapped or unfit for purpose—it was just ugly.

**Gerry Marshall:** I reiterate that that was our decision, and we made it in 2018.

**Jim McColl:** Yes.

**Gerry Marshall:** It was not a decision that was made by the new management team that came in. I personally instructed that the new bulbous bow be built. We built it, it sat in the yard, and it is still sitting there. It is perfect; it will look better aesthetically. The vessel was our class-leading vessel, and we wanted to ensure that it looked the best that it could. That was our decision; it was not forced on us.

**Peter Chapman:** Is the design of the bulbous bow all about how efficient the ship is and how well it goes through the water? Is that what the bulbous bow is all about?

**Chris Dunn:** Absolutely. It has been tested to death with computational fluid dynamics and at the world-leading test tank in Vienna. The bulb has been absolutely optimised. As Gerry Marshall said, there is nothing wrong with the original one, apart from a couple of the facets not being as nice and round as they should have been, because, sadly, the tool set does not exist in the UK any more. We got the plates brought in from the

Netherlands all dished and shaped and ready to do the second one. Any anomalies in the facets are within the boundary layer of the bulb itself and will have no impact on its hydrodynamic performance.

**Peter Chapman:** So you were prepared to bear the cost of a new fitting—

**Gerry Marshall:** Yes.

**Chris Dunn:** It was the right thing to do.

**Gerry Marshall:** Obviously, I had to get permission to do that.

**The Convener:** I cannot see in the contract whether the minimum number of knots for the ship is 18.5 or 16.5 knots.

**Jim McColl:** It is 16.5 knots.

**The Convener:** Would the bulbous bow that is currently on the ship deliver the 16.5 knots that is in the contract?

**Chris Dunn:** One of the challenges that we have had with the contract is that there are two vessels that operate at two different speeds, and the shipyard's obligation is to provide vessels that are as efficient as possible. The MV Isle of Arran is operated on one engine at 14.5 knots. We try to optimise the bulb to reduce the wake, but the ship also needs to be able to sprint at 16.5 knots, and that drove the propeller challenges. We needed to pick a point at which to optimise that bulb, and it was optimised for 16.5 knots, because of the challenge in relation to speed.

12:15

**The Convener:** So that fulfilled the contract.

**Chris Dunn:** Yes.

**Richard Lyle:** Am I correct to suggest that you were awarded and accepted a contract for two ships that neither you nor the customer had fully planned and for which you had no set drawings or designs, that you got the contract and then you started to design the ships, and that you had not done so prior to submitting your bid?

**Chris Dunn:** We had between 15 December 2014, when the ITT came out, and 31 March to submit 27 documents, many of which were design documents with full specifications and general arrangements, structural analysis and all the things that we had prepared.

**Richard Lyle:** But you still had more design work to do.

**Chris Dunn:** It is in the nature of any contract that, the second you introduce Wärtsilä, it tells you what the design needs to change to, and you—

**Richard Lyle:** You suggested that you got a lot of changes. When you started to get them, why did you not sit down and suggest to CMAL that the work should be halted and that there should be final agreement on what was needed from that time until the completion of the contract? You had a war room, so why did you not bring the enemy into it, sit down together and finally agree what you needed, rather than saying that you needed a different propeller or that the colour of the seats was not right?

**Jim McColl:** We did do that, and we had constant refusals from CMAL. Members have heard from Commodore Luke van Beek that it was absolutely not going to engage in discussion with us. That was to the extent that I had to make a personal appeal to the First Minister to get CMAL round the table. It came round the table, and it said something consistently through that meeting. This might explain some of Commodore Luke van Beek's involvement. Transport Scotland suggested that we should enter into an expert process, which is the right thing to do—that was done in the Davie shipyard in Canada. I requested that 14 times at the meeting with CMAL, and its chairman refused 14 times to get involved. He said that his board had decided that it was not going to engage in an expert witness process. We had previously applied for mediation, and CMAL refused to agree terms for that.

**Richard Lyle:** Would it have been better for you to have had direct contact with CalMac rather than CMAL?

**Jim McColl:** That was not allowed. If we had dealt directly with CalMac, the ferries would be sailing now, and there would not be the costs.

**Richard Lyle:** So you are seriously suggesting—

**The Convener:** We will come back to the issue of the final administration later.

**Angus MacDonald:** I want to go back to the issue of the bulbous bow to get some clarification. Has it not been condemned by Lloyd's, as it told you it would be? Clearly, it was not CMAL's decision to build below standard. We are aware that the bow was built with steel that was too thin to support the weight of the hinges. Can you clarify whether that it is case?

**Jim McColl:** No.

**Chris Dunn:** The question about the steel and the hinges is a new one to me.

**Angus MacDonald:** The steel was too thin.

**Chris Dunn:** That was not the case. If that was the case, the replacement boat that we built is also too thin. Those drawings have been signed off.

**Angus MacDonald:** So you might have to build a third bulbous bow.

**Gerry Marshall:** That is new information.

**Chris Dunn:** I cannot comment on that issue. As far as I am concerned, that bulb has been signed off by pretty much everyone. The structural calculations have been done and approved. The challenge that we had was that the on-site surveyor recognised that some of the plates were slightly out of tolerance. There is a tolerance to weld gaps, some of the plates were slightly out, and that influenced the decision for us to go and make the good one. We could have repaired that, but we decided not to.

**Angus MacDonald:** Is it the case that the steel was too thin for the hinges and the doors, so the bow was not signed off by Lloyd's?

**Chris Dunn:** I do not know where that comment comes from. The weight of the doors lands on the butcher block, and the butcher block is tied up to the structure of the ship.

**Jim McColl:** It is not the bulbous bow.

**Angus MacDonald:** The information came from the first evidence session that we held.

**The Convener:** I think that that is as far as we will get on the bulbous bow.

**John Finnie:** Good afternoon, panel. In the first evidence session, we heard the suggestion that there was a bullying culture at the yard, which I am sure Mr McColl is aware of. Will you comment on that and outline how you would characterise industrial relations at the yard?

**Jim McColl:** Industrial relations at the yard were fantastic. We had a great relationship with the workforce and the two shop stewards. I know about the bullying that you referred to. One of the shop stewards, Alex Logan, was at the evidence session and I think that, if you got him back here and asked him about the relationship with us at the yard, he would say that it was fine.

**Gerry Marshall:** I ask members to look at the video of Alex Logan giving evidence. He clearly stated that it all changed when I came into the yard. I make it very clear that I would not accept any bullying culture anywhere I work.

**Jim McColl:** We had a fantastic working relationship, which was among the best that we have had in any of our businesses. We have zero tolerance of bullying. That is why we had to ban an individual from CMAL from the yard. He was bullying people in it.

On the incident that was mentioned, when we first got into the yard, we had a very good operations manager, but he was a tough, old-school guy. The union came to me—Alex Logan

was there—and said that the guy was just a bully, and we got rid of him. That was early on, and it was a one-off incident, which we took care of.

**Gerry Marshall:** I reiterate that we had a fantastic relationship with the union and the employees. Some of the highest-quality work that I have ever seen in any place I have worked came out of that yard. There was a great relationship, and there were no problems whatsoever.

**John Finnie:** For the avoidance of doubt, I am putting to you what we have heard. I was going to say that it was specifically mentioned that things changed over time and that Mr Marshall was mentioned. I did not cast any aspersions. Is your characterisation that the working relationships complemented how you hoped to progress things?

**Jim McColl:** Absolutely. We found that we had a very good, high-quality workforce and that the relationship with it in the yard was good. Productivity was probably the best that it could be. We got very good co-operation from the workforce in working on some things out of sequence, and the place was a happy one in which to work. The workforce will tell you that.

**Gerry Marshall:** To be fair, I think that the workforce was getting frustrated as well, because of the constant change in having to redo things. That is where its frustration came in. I put it on the record that the workforce was among the best that I have ever worked with anywhere. The quality of the workmanship that those guys and girls produced was phenomenal—and it still is.

**Jim McColl:** We had a very good apprenticeship programme in place, which was supported by the union and the workforce. On Friday, we saw a young lady who had won the top British apprentice award getting the award for the second time from Mr Mackay at the yard—she had already got it down south, but that was a good photo opportunity for him. We put those things in place. There has also been the launch of the fishing vessel that was 85 per cent complete when the yard went into administration.

Those things have been mentioned as involving high-quality management and systems, but we have to listen to the abuse that was given to the management.

**John Finnie:** You have been given the opportunity to put on the record those many positive things about the workforce and the managerial style that you sought to employ previously.

**The Convener:** There are two follow-up questions. I must ask committee members to be brief.

**Maureen Watt:** You said that you tried to sit down with CMAL and work through your

disagreements. Did you invoke the contract dispute resolution process and, if not, why not?

**Jim McColl:** Yes, we did. There was a dispute resolution process in there for mediation. We served a mediation notice. We agreed with CMAL on a preferred mediator from three people who were put forward. When we approached that mediator, we found that it would be five months before they were available. We went back to CMAL and asked whether we could look at a back-up, but CMAL refused and said that it wanted to wait. We said that we would wait and asked whether we could agree the terms of the mediation. However, we could not agree the terms of the mediation with CMAL because it could not include anything that would result in any additional payment, so that process was frustrated by CMAL.

**The Convener:** Jamie Greene wants to come in, and then we will go on to the next theme.

**Jamie Greene:** I am a bit lost over where we are, but I have lots of questions. I certainly have questions about financing and cash—are those for now?

**The Convener:** No.

**Jamie Greene:** In that case, I have a different question for Mr McColl. You are a successful businessman. You took on the contract and you said that you would do it at cost. We heard today that you would even do it at a small loss for the greater good of shipbuilding on the Clyde and to develop a pipeline of work for the future. If things were going so badly wrong with your customer, CMAL, and the relationship had deteriorated so much, given that you enjoyed quite good relationships with some senior people in the Scottish Government, why did you not just pick up the phone and say to them, “We’ve got to sort this out?” If you did, why was nothing done?

**Jim McColl:** I did. As I explained earlier, I picked up the phone to the First Minister’s office and I arranged to see her. By that time, I had asked BCTQ—a company with three very well-qualified naval architects—to review the contract to see whether we were missing something. The company did an expert report, which I took to the First Minister. I said to her, “We need to get round the table with these guys, but they are totally refusing.” She asked the director-general for economy to try to resolve the issue, which led to a number of meetings, but those meetings did not go anywhere because CMAL put up a brick wall. I appealed to the Government to insist, because CMAL is the Government’s wholly owned entity. If it was a business that I owned, I would insist that it came to the table because, as you heard from Commodore van Beek, getting a resolution is the cheapest way out, even for us, because we have lost all the investment with the yard being

expropriated from us. It is a big cost, but it is also a big cost for the other side, which will end up spending significantly more now.

We should have resolved this and I pushed for that. I also had a second meeting with the Cabinet Secretary for Finance and Constitution—in June 2018, I think—and I made a direct appeal to him to intervene and to ask CMAL to engage in an expert witness process. That was suggested by Transport Scotland, which is probably why Transport Scotland contacted Commodore van Beek in the first instance. However, CMAL point-blank refused to do it. I urged the finance secretary to force CMAL to do it, but he said that he would not.

**Jamie Greene:** I would like to come back to those issues later.

**The Convener:** I would like to start back at the beginning and build up a picture of the relationship, so that we can understand it. Emma Harper has some questions on that relationship, so maybe we can come back to the other issues after I bring her in.

12:30

**Emma Harper:** I have just been reading lots of information about the breakdown in the relationship between CMAL and Ferguson Marine. Michelle Rennie said in her evidence on 22 January:

“It was widely known that the relationship between CMAL and FMEL had broken down—that was not a particular secret.”—[*Official Report, Rural Economy and Connectivity Committee*, 22 January; c 23.]

In a letter, Luke Van Beek stated:

“The re-baselining of the programme and the development of the risk register presents an opportunity to change the relationship with CMAL ... If this is to work it must be as a willing partner rather than the adversarial situation that appears to exist currently.”

How did relationships get so bad, to the point where you describe 14 refusals to engage? I find that hard to get my head around.

**Jim McColl:** We do, too. When we saw the build-up of costs going way beyond what we would expect in a standard new-build contract, Gerry Marshall presented the costs to CMAL and got a very rude and dismissive response.

**Gerry Marshall:** I came into the yard in March 2017 and, by June 2017, I had done an assessment of where we were not just with the build programme but with everything in the business—cash, the project and everything. I identified at that point that there had been cost overruns and what I believed—and still believe—to be the causes of those overruns.

I think that it was on 7 July 2017 that I sat down with CMAL and presented the £14.7 million of cost overruns. However, I said to the board and everyone else that that figure was just going to get bigger because the full impact of the changes would have significance further down the line. Unfortunately, that has proved to be true. What I said at that meeting was not very well received—I will put it that way—but I tried to deliver the figure as best as I could.

I got a follow-up email the following day from the CEO of CMAL asking me to retract that figure and saying, “Look, you can’t put that forward. We’re in total disagreement with you on that.” That was the beginning of the problem. I have to say, though, that I met the CEO many times face to face and he was very civil; there was no problem in that regard. The problem seemed to be with the email conversations and the entrenchment of the view that there was no accountability on that side of the table and everything was down to Ferguson Marine.

**Emma Harper:** It is interesting that professionals in the companies could not just engage. What was done to try to improve relationships?

**Gerry Marshall:** We continued talking and having meetings. We were facing entrenchment, but I guess if you asked the CEO of CMAL about that, he might say that I was entrenched. However, my view was that CMAL was very much entrenched in the view that there was no accountability at its end, whereas I would openly say, “Yes, of course we’ve got some accountability for this.” Hindsight is a great thing and there are perhaps things that we could look back at in that regard. However, I return to the point that, without a doubt, it all goes back to the very beginning of the contract. If we had spent time at the concept stage to iron everything out, we would not be here today having this meeting.

**Jim McColl:** We were pushing to have everybody sitting round the table. We did not do that with the idea that we would come out of the situation without some responsibility.

**The Convener:** We will come on to sitting round the table and mediation in a minute.

**Jim McColl:** Okay.

**The Convener:** A specific example of where one side felt that it had been ignored was given in an earlier evidence session, but I cut the member off about it. Do you want to come back to that, Angus?

**Angus MacDonald:** Indeed, convener. With apologies to the committee, I need to go back to the issue of the Axilocks, which came up at our first evidence session. The committee has heard

testimony on this previously, but the report on the updated costing programme for 801 and 802 stated that Axilocks were installed despite that being “a major departure” from the customer’s specification. I know that this has been discussed briefly already, but can you explain why the decision was taken to install and continue to install Axilocks without agreement with CMAL, given that they should not be there as they do not comply with the specification?

**Chris Dunn:** As background, I note that an Axilock is a sleeve coupling that is made of rubber with steel clamps around the outside. Two pipes go in, and it can be bolted together. It is quite small and compact and it is easy to get to industry standard. The big cruise ships that are built in Italy have something like 15,000 Axilocks on board. They are accepted in every single position in ships by the manufacturers of naval and cruise ships and ferries.

There was an ambiguous statement in the latter part of the specification that said that Axilocks should not be used in the engine room. We were faced with a problem where, in some cases, we had pipes six deep, with 1,500 pipes in the engine room. If we had put in bolted flanges—a bolted flange is typically twice the diameter of the pipe that is being bolted in—we would not have been able to put in six pipes in a row, because the flanges would have all locked up and we would have ended up with no space. There is very little space as it is. The only sensible engineering solution was to use an industry-standard, perfectly safe and viable Axilock coupling and push on with the job.

**Jim McColl:** Axilocks are designed for tight spaces like that. That is an example of us going back with a practical solution and a perfectly acceptable design change and being told, “No, we don’t want that. We want flanges and we want to have all these pipes in the engine room.” It is not possible to get them all in with flanges. That is just one example of thousands.

**Angus MacDonald:** However, is that not a prime example of you signing a contract even though you knew that you could—or, in fact, would—not comply with the specifications, which were down to the customer?

**Jim McColl:** No. As I mentioned earlier—we have detailed analysis of this—there were three changes to the engine room and CMAL wanted more pumps put into it. If you put more pumps in, there will be more pipes. You have to be able to adapt through such contracts; you have to be able to sit round the table and discuss things.

One of the problems that we have had is that there are people sitting on the other side who do not really care about the cost, or who are not

responsible for the cost implications. They thought that they could just pass it all on to us. They were really not thinking as a commercial entity, because any commercial entity would sit down and try to resolve the issue, knowing that the alternative would result in a bigger cost.

I will make one other point. I do not know how this is being handled just now, but if CMAL is sticking to the position that it is paying only £97 million for the ships, the cost will be picked up by someone else—that is, the taxpayer—and it will look as if it has finished the ships for £97 million. It is not responsible for its actions.

**Colin Smyth:** Given the breakdown in that relationship, why was mediation not used at an early stage?

**Jim McColl:** As I said earlier, we submitted a notice of mediation and we selected a mediator, but they could not give us the time immediately. I think that it was going to take about five months. We asked for a change of mediator, but CMAL refused. We accepted that we would wait and go with the original mediator, and we started to engage in the terms of reference for the mediation, but CMAL would not agree to any terms of reference that would address the issues that we were trying to mediate on. It is difficult to have mediation when the other side is refusing to sit down and agree terms. That is when I would have expected Transport Scotland or the Government to mediate on the mediation terms, or to do something, but they refused to do it. They refused to engage at any time, and to this day I do not understand why.

**Colin Smyth:** Given the failure to get to mediation, you raised the concerns with Transport Scotland and Government ministers. Will you clarify which ministers you raised the concerns with and what the response was?

**Jim McColl:** I raised the concerns with the First Minister, the Cabinet Secretary for Finance, Economy and Fair Work, the Deputy First Minister and the Minister for Business, Fair Work and Skills. I raised them with all three transport ministers—

**Colin Smyth:** What action did they take as a result of your raising those concerns?

**Jim McColl:** No direct action was taken to make anything happen. Meetings to discuss the issue were arranged, but they were being passive about it when there needed to be more than passivity.

**Colin Smyth:** What should they have done?

**Jim McColl:** They should have instructed their wholly owned entity that they insisted on an independent expert coming in to look at the matter. That is clearly what Transport Scotland was setting out to do when it asked Luke van Beek

to come in at first, but then that project went away and he went on to be engaged by the director of economic development. Transport Scotland was clearly pushing that solution with us, and it was clearly lining up Commodore van Beek to be the independent expert.

**Colin Smyth:** Was that the gateway review that we discussed earlier?

**Jim McColl:** That is what Commodore van Beek called it.

**Colin Smyth:** Why did that not happen? Was it because Transport Scotland changed its mind?

**Jim McColl:** Because CMAL refused to engage in it.

**The Convener:** Jamie Greene has questions on the finance aspect.

**Jamie Greene:** They tie in nicely with what you have just said, Mr McColl. This was a design and build contract worth £97 million. At some point, you identified that the project was going over budget—to the tune of about £44 million or £45 million—and you approached CMAL about that.

**Jim McColl:** The first time that we raised the issue, the project was £14.7 million over budget. Then it was up at £44 million or so.

**Jamie Greene:** At any rate, you had a claim against CMAL for around £45 million over and above the £97 million.

**Jim McColl:** Yes.

**Jamie Greene:** At that point, you had a conversation with a different section of the Government—not Transport Scotland or CMAL. We have heard evidence to the effect that you later spoke to Cabinet members or the First Minister, who offered you £45 million in loan funding to assist with the completion of the project.

**Jim McColl:** Yes.

**Jamie Greene:** In your mind, did that represent an acceptance by the Government that the costs had overrun? Was it any surprise that CMAL's representatives were annoyed that a different arm of the Government had given you the money that it had refused to give you?

**Jim McColl:** I am sure that they were mad about that. The Government knew that the costs had overrun. That was clear, because PricewaterhouseCoopers had been involved in looking at them.

When Commodore van Beek first examined the situation, in May 2018, he mentioned the resource constraint that we had. That was what was holding up progress on 801 and 802. The second loan, which was for £30 million, was advanced to us in June and allowed us to free up the resource to

which Commodore van Beek had referred. The only way for us to do that was for us to have additional cash, which was advanced to us by means of the loan for £30 million.

I clarify that the first loan, which was for £15 million, was drawn earlier. My first approach to the Government about releasing that was on the basis that we had the money—which was our cash—tied up in escrow, as a guarantee. I asked for £15 million of our cash to be released in exchange for some other kind of guarantee. The Government said that it could not do that because it might breach European rules on procurement or state aid, but that it would lend us £15 million of our own money and charge us 15 per cent for doing so.

The second loan, which was for £30 million, allowed us to free up the resources that Commodore van Beek had referred to. He had observed that the resources were freed up then—that is what freed them up.

**Jamie Greene:** If taxpayers have given the yard £142 million of public money, why do we not have £142 million-worth of ships?

**Jim McColl:** You do.

**Jamie Greene:** So why is it going to cost £230 million to finish them?

**Jim McColl:** Because there is still a lot more to do. Complications have come up because of the complexity of the design and the continual changes that have come through.

**Jamie Greene:** So £100 million was never feasible.

**Jim McColl:** That is correct.

**The Convener:** There are some final questions to wrap up.

12:45

**Stuart McMillan:** As the local MSP, I have met Mr McColl and Gerry Marshall on several occasions. One of the things that I have emphasised to both of them in the past is my loyalty to the yard and its future—hopefully, for many years to come.

Mr McColl, it has been reported that you have suggested that the two vessels should be scrapped and that we should start again. We heard evidence last week from Dr Alf Baird, who made a similar suggestion, although he went on to say that four smaller vessels could be built in China to replace the two that have already been built. Do you agree with Dr Baird's comments?

If the two vessels were to be scrapped and we were to start again, would that not create additional cost and a delay, as well as, potentially,

another open tender? If that were to be the case, could that lead to the yard closing?

**Jim McColl:** There are a lot of questions there. I said that it might be better to scrap them and start again was because the Government has taken over the yard and it has dismissed—or is in the process of dismissing—the remainder of the management, and a lot of people who were involved in making the project work have left. That team will have to be built up from scratch. I think that Tim Hair said in his evidence that he would need seven months to do that. In effect, they will have to redesign what they are doing—I know that they are descopeing part of that just now. That could get out of hand.

The delivery has been set for October 2021. Is that right?

**The Convener:** That is for the 801.

**Jim McColl:** That is very ambitious. I agree that you could build new ships—smaller ones—in that time. You do not need to build them in China.

**Gerry Marshall:** Build them in Scotland—in Ferguson's.

**Jim McColl:** You could build them in Ferguson's under proper management, although it could not be done in that time given the current situation, so you might have to go to China.

You could build smaller ships. You could probably have a bundle of 40-odd-metre ships like the MV *Catriona*, which cost £12 million. How much would a 50m vessel cost?

**Chris Dunn:** Between £20 million to £25 million.

**Jim McColl:** It goes back to the strategy that was mentioned earlier. You need to have more smaller ones and not the big ones. We, too, have heard from CalMac that it does not get what it wants from CMAL, but gets told what it is going to get. Further, the island communities do not get a say on what they need. They do not need what they are getting.

The reason why I said what I did is that those vessels will never work on LNG—they are not suitable for the short runs and they are more damaging to the environment than would be the case if there were only CO<sub>2</sub> emissions. The committee can read reports on that.

Last week, we heard from a top designer who works with the Norwegian ferry yards, who said that they are selling their LNG ferries. You have to put in the bunkering system, which will be expensive, and the infrastructure for those two vessels—and you are not going to use them. The best thing to do would be to finish the Glen Sannox—it could be finished fairly quickly—and

then sell it to someone who wants to buy a dual-fuel LNG ferry.

The problem is that there is a shortage of vessels to service the islands and the island communities.

**The Convener:** Stuart McMillan has a follow-up question, so I will bring him back in there.

**Stuart McMillan:** I come back to my original point. If the two vessels were to be scrapped and smaller vessels were to be put out to open tender, that would delay the process. Although the yard is working on the final Inverlussa vessels and also on the barge, that will not continue the work stream for the yard. The workforce might decrease. The yard might close, and the economic effect on Inverclyde would be devastating, with 300 jobs possibly being lost.

**Jim McColl:** You could occupy 300 people there if you remove the 802 vessel from the slipway and quickly start building the new ones. They will be paying the workforce anyway.

**Stuart McMillan:** That would be if the yard were to win the tender.

**Jim McColl:** It does not need to now, does it? It is Government-owned. The Government does not need to put the contract out to tender.

**Stuart McMillan:** There are—currently—still European processes that it would have to go through.

**Jim McColl:** No; it can place the order directly with the shipyard and get it to build them. The yard cannot bid for third-party work, but it can do work for the Government's own company, CalMac.

**Stuart McMillan:** We can get clarification on that.

**Richard Lyle:** Are you saying that we should not build cruise ferries but that we should build smaller ferries that suit Scotland?

**Gerry Marshall:** Yes.

**Jim McColl:** That is what you were told last week by the experts.

**The Convener:** I have a question that takes me back almost to where I started. I have read all the documents. Do you think that those released by the Scottish Government, including the redacted ones pertaining to Ferguson Marine, represent a full and comprehensive record of events, or are key documents missing?

**Jim McColl:** I believe that key documents are missing. I think that the papers were all put out there as a distraction to stop people from homing in on the key documents. For example, I believe that some of the communication between Luke van Beek and the Government has been held

back. I know that it has been requested under freedom of information legislation. The reason that has been given for holding it back is that it could be commercially sensitive, or that it could breach general data protection regulations. All of those documents were released en masse as a diversionary tactic.

**The Convener:** It seems, from the documents, that the breakdown of the relationship between Ferguson Marine and CMAL began in October 2015 and has become progressively worse. That is alluded to in the Government documents and also in some of the reports from independent sources. Is that a fair assessment?

**Jim McColl:** The only thing that I can think of from around that date is that we were a bit annoyed when, although there had been a verbal agreement that the cost of foreign exchange would be covered, it was then announced that we were not going to be given that. You could maybe say that was the beginning of the breakdown.

**The Convener:** The original tender documents suggest that CMAL was not happy that you had been awarded the contract. That is a statement that it made in October 2015.

**Jim McColl:** You say that CMAL was not happy that we had been awarded the contract, but was it not CMAL that awarded the contract to us, and signed it?

**The Convener:** You told us that somebody else awarded the contract.

**Jim McColl:** No, CMAL awarded the contract, and signed it.

**The Convener:** Maybe under duress, but it says in the document that it was unhappy.

**Jim McColl:** Maybe it was. I do not know what pressure it was put under by the Government to do it. Perhaps that is one of the issues that is causing concern in the Government at the moment.

**The Convener:** If you had gone into mediation and had come up with a solution, do you think that the contracts that you envisaged in Ferguson Marine's future for other ships, boats and barges would still be there, or do you think that it had gone beyond that? Would there have been business in the future?

**Jim McColl:** I think that there would have been business in the future.

**The Convener:** You think that there would have been a rosy future if you had managed to sort things out.

**Jim McColl:** Absolutely.



**The Convener:** Is that why you recommended administration?

**Jim McColl:** No. We were forced into administration by the Government's actions. The company's cash flow became too tight because of all the additional costs that were lumped in with the ferries. We were not going to provide £100 million to subsidise the Government's ferries, given that, in our view, a Government-owned entity was the cause of the issues.

**The Convener:** As the convener, I thought that I was going to get to ask the last question, but everyone wants to come in.

**Mike Rumbles:** I want to raise a point about the contract that was awarded by CMAL. Transport Scotland's ferries unit sent a letter, dated 20 August 2015, to the Cabinet Secretary for Infrastructure, Investment and Cities, because the Minister for Transport and the Islands was on leave. Under "Recommendation", the letter says:

"We recommend that you"—

the Cabinet Secretary for Infrastructure, Investment and Cities—

"approve the award of the two shipbuilding contracts by CMAL to Ferguson Marine".

For the avoidance of doubt, that is the situation, is it not?

**Jim McColl:** Sorry—who recommended that?

**Mike Rumbles:** I have quoted from a letter, dated 20 August 2015, from Transport Scotland's ferries unit—the person's name is redacted, so I do not know who sent it. The last sentence of the letter, under "Recommendation", says:

"We recommend that you"—

the Cabinet Secretary for Infrastructure, Investment and Cities, because the Minister for Transport and the Islands was on leave—

"approve the award of the two shipbuilding contracts by CMAL to Ferguson Marine Engineering Ltd."

**Jim McColl:** I did not know that, but that explains quite a bit. In my meeting in June 2018 with the Cabinet Secretary for Finance, Economy and Fair Work—who was, in 2015, the Minister for Transport and the Islands—I appealed to him to insist on an independent expert witness process, as proposed by Transport Scotland. I kept pushing for that. He asked the officials to leave the room and then told me that he could not do that. When I asked, "Why?", he said, "Because they have sent us a legal letter, and if I continue to unduly influence them, as an independent board, they will resign en masse and make it public as to why." I think that he used those terms. Why would that be the case? It might be that the board felt that it was

under pressure to award the contract to FMEL, but we were certainly not aware of that at the time.

What has happened since has made me question why the Government went through all the turmoil and mess with the yard, by nationalising it and, in effect, expropriating it from us, when a simple solution had been put forward by an expert that the Government had brought in. Transport Scotland made that suggestion, so why did the finance secretary refuse to do it? What was he scared of? To this day, I do not know what it was, but we have suffered the consequences of it.

**Jamie Greene:** The purpose of the committee's inquiry is to unearth what has gone wrong—clearly, things have gone wrong—but it is also to look to the future and think about how we will build ships in Scotland. How do you feel about what has happened over the past couple of years at Ferguson Marine, given that you started the process in the first place? What are the unanswered questions that we need to get to the bottom of? As we move forward with the inquiry, what should we ask Scottish ministers, so that we can learn from the mistakes and look forward to a future of Scottish shipbuilding?

**Jim McColl:** It is very clear: the elephant in the room is CMAL. You have heard that from island communities, from CalMac and from experts. We did not need CMAL to be involved. Before CMAL was involved, the yard worked perfectly well, with CalMac engaging with consultants who knew what they were doing. CMAL does not need to be there. I do not know why CMAL was set up—I think that it was because of issues to do with European procurement or something—but it is surplus to requirements.

13:00

We could have a very smooth system. CalMac knows what it wants, so it could engage with the island communities. That information could be relayed to a company such as Houlder or a specialist, who would draw up the specifications and then go out to the yards. There is no need for anything more complicated than that.

Earlier, standard designs were mentioned. Yes, we have different ports, but there is a way to adapt. Chris Dunn has designed three basic standards—at 35m, 50m and 80m. That reduces the costs significantly, allows you to plan ahead with a strategy for the replacement of vessels and makes it easier for crewing and crew training.

It is dead clear what needs to happen. There is huge waste in the system, which is what the committee needs to get to the bottom of. With all due respect, the issue is much too big for the committee to be able to resolve. There should be

a public inquiry, because this mess will not get any better otherwise.

**The Convener:** That is exactly where we will leave it.

**Jim McColl:** I thought that you were going to say, "That is exactly what we are going to do."  
[*Laughter.*]

**The Convener:** I am a politician, even though I am the committee's convener.

I thank Jim McColl, Chris Dunn and Gerry Marshall for coming along. It has been a very interesting session.

13:01

*Meeting continued in private until 13:01.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

---

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

---

All documents are available on  
the Scottish Parliament website at:

[www.parliament.scot](http://www.parliament.scot)

Information on non-endorsed print suppliers  
is available here:

[www.parliament.scot/documents](http://www.parliament.scot/documents)

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: [sp.info@parliament.scot](mailto:sp.info@parliament.scot)

---



The Scottish Parliament  
Pàrlamaid na h-Alba