

## Audit scope

# New ferries for the Clyde & Hebrides

Management of the project to deliver vessels 801 & 802



AUDITOR GENERAL 

Prepared by Audit Scotland  
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### Background

In 2014, Transport Scotland identified the need for Caledonian Maritime Assets Limited (CMAL) to procure two new ferries for the Clyde and Hebrides network. In October 2015, CMAL awarded contracts to Ferguson Marine Engineering Limited (FMEL) to design and build the new vessels, known as Hull 801 and Hull 802, at a combined fixed price of £97 million. Hull 801 was expected to be completed in May 2018 and Hull 802 in July 2018.

CMAL reported delays to Transport Scotland as early as January 2016 and, in February 2017, alerted Ministers that the project was six months behind schedule. This was followed by notification of further delays and growing concerns about FMEL's finances. Despite CMAL making changes to the contract to support FMEL's funding position, and the Scottish Government lending FMEL a total of £45 million, FMEL entered administration in August 2019. In December 2019, FMEL was brought into public

ownership and a new organisation - Ferguson Marine (Port Glasgow) Limited (FMPG) – was formed.<sup>1</sup> The Scottish Government and FMPG have subsequently been working together on new arrangements to complete the vessels.

FMPG published updates on vessel construction in December 2019 and August 2020. It estimated that, in addition to the £82.5 million already spent by CMAL, the anticipated cost of completing both vessels is between £110.3 million and £114.3 million. Its estimated delivery date for Hull 801 is between April and June 2022, and between December 2022 and February 2023 for Hull 802.

### Why we are doing this audit

Ferries are essential for sustaining Scotland's most remote communities. Significant public sector investment has been made in the new vessels, which were intended to improve the reliability and capacity of lifeline ferry services. The vessels are now expected to cost more than double the original

budget and, at best, will be delivered over four years late. The delays and cost overruns have had a negative impact on island communities, weakened resilience across the Clyde and Hebrides network, and generated significant public, political and media interest.

In December 2020, the Scottish Parliament's Rural Economy and Connectivity (REC) Committee concluded its inquiry into the project. It reported there had been serious failures in vessel procurement, project planning, project management and communication. Given the significant cost overruns which will be met directly from public expenditure, the Committee recommended that Audit Scotland review CMAL's financial management of the vessel contracts and Transport Scotland's role in this. It also recommended that we investigate the Scottish Government's loan support to FMEL.

### What will the audit look at?

The overall aim of the audit is to provide an independent assessment of the initial and new arrangements to deliver the two vessels. We will seek to answer the following questions:

- Did CMAL, Transport Scotland the Scottish Government put appropriate arrangements in place to ensure the project was delivered to time, cost and quality?
- To what extent did CMAL, Transport Scotland and the Scottish Government respond appropriately to resolve issues and concerns with the project?
- What are the updated costs and timescales for the project and has the Scottish Government put appropriate arrangements in place to ensure its successful completion?

The Auditor General for Scotland previously reported on the decisions to award commercial loans to FMEL as part of his reports on the audit of the Scottish Government's 2017/18, 2018/19 and 2019/20 consolidated accounts.<sup>2</sup> This audit will therefore focus on the specific loan requirements that the Scottish Government put in place in respect of the vessels and the impact that the loans had on the project's progress.

The REC Committee's inquiry and resulting conclusions on the project were wide-ranging. We do not intend to repeat the Committee's work and, as such, we will not consider issues such as vessel design, the capabilities of FMEL to construct the vessels, or the decision to nationalise FMPG.

We will also not review any aspect of the procurement process prior to FMEL being announced as the preferred bidder.

### How we will carry out the audit

To answer the audit questions, and to minimise duplication, we will make use of the evidence submitted to the REC Committee's inquiry and the documentation published by the Scottish Government on the project. We will supplement this with qualitative and quantitative evidence, including interviews with representatives from the bodies involved. We will also review relevant unpublished documents, analyse available data and obtain independent advice from experts in the area.

### What impact will the audit have?

The audit will improve public understanding of what went wrong with the project to deliver vessels 801 and 802. It will do this by clarifying the arrangements that were in place to manage the project and the extent to which these were followed. It will also set out how adequately the Scottish Government, Transport Scotland and CMAL responded when problems arose. It will provide assurance to the Scottish Parliament and the public that the Scottish Government has put appropriate arrangements in place to complete the vessels. It will consider what lessons have been learned and make recommendations to help improve the management of similar projects.

### Timetable and contact

We plan to publish a report in winter 2021/22. Audit Scotland is carrying out the work on behalf of the Auditor General for Scotland (AGS). Following publication, the AGS will present findings to the Scottish Parliament's Public Audit Committee and other relevant committees as appropriate.

If you have any questions, please get in touch with Gill Miller, Audit Manager, on [gmillier@audit-scotland.gov.uk](mailto:gmillier@audit-scotland.gov.uk)

#### Notes:

<sup>1</sup> Ferguson Marine was brought into public ownership via a new entity, Ferguson Marine (Port Glasgow) Holdings Limited, of which Ferguson Marine (Port Glasgow) Limited (FMPG) is a wholly owned subsidiary.

<sup>2</sup> Laid under Section 22 of the Public Finance and Accountability (Scotland) Act 2000



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