

RURAL ECONOMY AND CONNECTIVITY COMMITTEE

INQUIRY INTO CONSTRUCTION AND PROCUREMENT OF FERRY VESSELS IN SCOTLAND

SUBMISSION FROM ARRAN ECONOMIC GROUP

In particular, the Committee would like to hear your views on the following questions:

1. What are your views on the conclusions and recommendations of the programme review board with respect to delivering the most effective delivery programme for the completion of the two vessels, MV Glen Sannox (vessel 801) and vessel 802?

Answer: The review's findings, put mildly, are concerning. To name but a few: No ERP system. No basic design agreed. No defined Bill of Material. No stock audit of available material and last but not least (3.3.6). "The project has gone too far to establish a proper Bill of Material and there will therefore be a continued uncertainty about whether materials bought for incorporation into the vessel is of the right quantity, has been to the change process or is the right form, fit or function". Taken together, it has all the makings of a "Friday afternoon car" in the bad old days.

Also, it will be very difficult to get the new organisation to "own" all the issues they inherit. For example, the quote (3.3.6) seems to accept there will be components in the ship that they take no responsibility for. There will be other examples and it is hard to understand where we find the experienced talent, to complete the ships and corrects the catalogue of errors in the detailed review.

In summary, the plan looks very difficult to implement. There needs to be some really hard deadlines to determine the viability of the program. The first one is the ability to agree the basic and detailed design on time. If that cannot be achieved, the project should be reconsidered.

2. What has been the impact of the repeated delays to completion of the contract to construct two hybrid ferries on the specific routes and island communities awaiting delivery and entry into service of these two vessels?

Answer: Very difficult to say accurately. Over the period, Arran's tourist revenue drives annual revenues between £60m and £65m. Most people involved in the industry highlight both cost and revenue impacts caused by cancellations, disruptions confusion and fear. Best estimates would be around 10% / annum in lost revenue and reputational damage over the delay period. So, around £20m for Arran. This delay had obviously knock on effects on the Network and it is not possible to put a value on this from our standpoint.

However, money is not the only impact of the repeated delays. There is a real reduction in business and community confidence. Connectivity is the primary requirement in creating and sustaining Island Communities. Delayed new ships

threatens the medium/long term viability of the Island business's and communities. People are already leaving. This is the primary impact.

3. What actions can be taken, in particular with respect to improved contract management processes, to ensure future contracts of this type are delivered a) on time; and b) on budget?

Answer: As the Customer, agree your detailed design requirements. Employ a competent contractor and a competent contract manager. None of this appears to have happened. Therefore, there is a need for a complete overhaul of oversight, management and process.

4. What key challenges need to be addressed in procuring new vessels to support Scotland's ferry network and how might these be overcome?

Answer: Separate Industrial Policy from an immediate demand to support Scotland's Ferry Network. Does Scotland need a ship building capability to support its Island and defence needs? Probably. That needs a plan, time and investment in people and capital. If that capacity does not exist currently, buy the boats elsewhere. Demand for ships is now past critical. It must be the primary driver ahead of a well-meaning plan to create a local shipbuilding capability. In summary, use "local" competent capacity to supply Scotland's ferry network, when it is available, not before. Increase contingency/resilience planning to ensure the ball (Island Communities) is not dropped as we determine our position.

5. How might the experience of the procurement and fulfilment of the current hybrid ferries contract inform the development of an updated Ferries Plan?

Answer: Again, get the customer requirement right. Is a Gas hybrid the answer.? Demand is urgent. Technology that will allow us to meet the Climate Emergency challenge is running behind the urgent demand for ferries. So, build what we can now and develop what we will need for the future.

6. What are the likely implications of the Scottish Government's decision to take Ferguson Marine Engineering Ltd. into public ownership for the fulfilment of the current contract and the award of future contracts for the construction of new ferries?

Answer: Too early to tell. Worst case scenario: We force the supply of ships through a contractor that is incapable of delivering them and so exasperate the risk to Island revenue, life-line services and Island sustainability OR It works and we have competent supplier who can competitively bid for the future contracts. At this stage, we do not know what we have and that is a major concern. Given the critical nature of demand and the fragile state of "local" supply, we should keep our options open. That is; we should commission three boats on the open market now. Given the ferries plan, they will be needed.

7. What impact is the United Kingdom's departure from the European Union likely to have on the future award of new ferry construction contracts, in particular as regards ongoing.?

Answer: When we leave the EU we will probably leave the restrictions on state aid to industry. That could help. On the other hand, we need to get value for the public purse, so ferries have to be built to a competitive price, quality, time and functionality.