OFFICIAL REPORT
AITHISG OIFIGEIL

Net Zero, Energy and Transport Committee

Tuesday 27 February 2024

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 27 February 2024

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NET ZERO, ENERGY AND TRANSPORT COMMITTEE
8th Meeting 2024, Session 6

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Ben Macpherson (Edinburgh Northern and Leith) (SNP)

COMMITTEE MEMBERS

*Bob Doris (Glasgow Maryhill and Springburn) (SNP)
*Jackie Dunbar (Aberdeen Donside) (SNP)
Monica Lennon (Central Scotland) (Lab)
*Douglas Lumsden (North East Scotland) (Con)
*Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Sarah Boyack (Lothian) (Lab) (Committee Substitute)
Simon Cunningham (Ferguson Marine (Port Glasgow) Ltd)
Gillian Martin (Minister for Energy, Just Transition and Fair Work)
Andrew Miller (Ferguson Marine (Port Glasgow) Ltd)
Graham Simpson (Central Scotland) (Con)
David Tydeman (Ferguson Marine (Port Glasgow) Ltd)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Net Zero, Energy and Transport Committee

Tuesday 27 February 2024

[The Convener opened the meeting at 09:21]

Decision on Taking Business in Private

The Convener (Edward Mountain): Good morning, and welcome to the eighth meeting of the Net Zero, Energy and Transport Committee in 2024. We have apologies from Monica Lennon and Sarah Boyack MSP is attending in her place as a Scottish Labour substitute member of the committee. Graham Simpson MSP is also here, primarily to ask questions about ferries. Welcome to you both.

The first item on the agenda is a decision on whether to take in private item 6, which is consideration of the evidence that we will hear under item 4, on ferries. Do we agree to take item 6 in private?

Members *indicated agreement.*

Subordinate Legislation

Renewables Obligation (Scotland) Amendment Order 2024 [Draft]

09:22

The Convener: Our next item of business is consideration of a draft Scottish statutory instrument. I am pleased to welcome Gillian Martin, the Minister for Energy, Just Transition and Fair Work. She is joined by Karen Dickson, the Scottish Government official who is responsible for energy and markets policy, and Aedan MacRae, energy markets policy officer. Thank you for joining us today.

The instrument is laid under the affirmative procedure, which means that it cannot come into force unless the Parliament approves it. Following the evidence session, the committee will be invited, under the next agenda item, to consider a motion that the committee recommend to the Parliament that the instrument be approved. I remind everyone that the officials can speak under this agenda item but not in the debate that follows.

Minister, I think that you want to make a brief opening statement.

Gillian Martin (Minister for Energy, Just Transition and Fair Work): Yes. I would like to briefly outline what has been done to date.

The order under consideration is a minor amendment to the Renewables Obligation (Scotland) Order 2009. The renewables obligation scheme provides revenue to generators of renewable energy through the trading of renewables obligation certificates, or ROCs. Suppliers purchase ROCs, either directly or through traders, from generators. The generators are awarded ROCs by the Office of Gas and Electricity Markets in proportion to their electricity output. The cost of the scheme is recouped by suppliers through energy bills. The number of ROCs that suppliers must provide to Ofgem for the electricity that they supply is referred to as the obligation level. That level must be published by the Scottish ministers before 1 October each year, giving at least six months' notice to suppliers before the obligation year begins.

The amendment to the 2009 order is necessary to allow the 2024-25 obligation level to be altered to reflect changes in United Kingdom Government legislation that introduce a new 100 per cent energy intensive industries exemption. It ensures that the ROS obligation level aligns with the UK legislation and the new 100 per cent energy intensive industries level. It also ensures alignment with the scheme in England and Wales, with a parallel amendment being made by the UK Government.

I believe that the amendment order is necessary and proportionate. I will, of course, be happy to take any questions that members have.

The Convener: Thank you, minister. There are a few questions. Deputy convener Ben Macpherson will ask the first one.

Ben Macpherson (Edinburgh Northern and Leith) (SNP): Good morning, minister, and welcome to your officials. The committee noted that there were only two responses to the Scottish Government consultation, but I am aware of how much proactive engagement the Scottish Government—including you, of course—generally does with stakeholders. Could you reassure us that the Government is confident that all necessary and appropriate steps have been taken to hear the views of stakeholders and that you have obtained the feedback that you would want to get this right?

Gillian Martin: Yes. The most important thing is that we provide certainty. As I outlined in my opening remarks, we want to work in tandem with the UK Government to provide that certainty and also to do joint consultation.

There is concern that, if we do not make the exemption for energy intensive industries, particularly in the high fuel price situation that we have at the moment, they could find that they are not profitable any more and they may have to consider things such as job losses—that is everything that we want to avoid. The large manufacturing sector is particularly affected—it obviously consumes a great deal of energy—so the policy protects them to a certain extent and protects those jobs. [*Gillian Martin has corrected this contribution. See end of report.*]

The Convener: Thank you. Sarah Boyack, I think that you have some questions.

Sarah Boyack (Lothian) (Lab): What will be the impact of us recommending approval of the order? How will it affect the actual price of electricity for the plants that will be affected? How much do you calculate that it will save energy intensive industries in Scotland?

Gillian Martin: I have some figures here.

I will mention domestic fuel bills, because obviously the exemption is recouped. The measure will have very little impact on domestic fuel bills.

I will have a look for the figures.

Sarah Boyack: Sorry, my question was not about domestic fuel bills. I was asking about the plants.

Gillian Martin: The 100 per cent exemption will reduce eligible energy intensive industries' electricity costs by between £5 per megawatt hour and £7 per megawatt hour. That will amount to quite a substantial sum if you think about the huge amount of fuel that is used by those particular industries. [*Gillian Martin has corrected this contribution. See end of report.*]

Sarah Boyack: How many industries—individual plants—are we talking about?

Gillian Martin: There are about 43 in Scotland.

Sarah Boyack: Okay, thanks. What proportion of our total Scottish consumption will the measure impact on?

Gillian Martin: I will need to check my notes on that, Ms Boyack. I do not think that I have that information to hand. Obviously, you are making a decision today. If we can find that information we will provide it to the committee.

Sarah Boyack: I just want to get a sense of how it all fits in.

Gillian Martin: The industries that are involved have already been set and the amendment will not allow any others to come into the scheme. They are already agreed and set. The exemption was 85 per cent and it will now be 100 per cent. We have seen in the last couple of years that particular energy intensive industries have found it quite difficult to keep employing people and to keep operations from losing money.

Sarah Boyack: My questions are partly about digging in and just trying to get some backdrop as we make the decision, so that is useful. Thank you.

The Convener: I hope that the information will not be critical to your making a decision on the next item. Minister, it would be helpful just to have those details clarified afterwards so that we have a record of them.

Mark Ruskell (Mid Scotland and Fife) (Green): I am trying to get my head around how this will incentivise industry to electrify—hopefully—and move away from oil-powered systems. Does the exemption act as an incentive or is it more about reducing the costs to industries that already have high electricity costs rather than about fuel switching or decarbonisation plans and that kind of thing?

09:30

Gillian Martin: Obviously, everything around the decarbonisation of energy is devolved to Scotland and our economic department is looking particularly at high-energy sectors such as manufacturing.

I am not sure that this particular instrument is about incentivising anything. I think it is about protecting jobs. We have large manufacturing, such as food production and feed-stock production. The original point behind the renewables obligation was to get a subsidy for renewables, but this particular exemption is about large manufacturers that are particularly affected by inflation and high fuel costs. There are thousands of jobs associated with those manufacturers and this is about protecting them in the face of a number of pressures. [*Gillian Martin has corrected this contribution. See end of report.*]

Mark Ruskell: Yes, I get that. I am trying to work out how the exemption helps industry to make the investments that it needs to make to reduce energy costs or to switch to low carbon sources. The original UK policy was called the "British industry supercharger". How does all this help to supercharge industry in the transition to reduce energy costs and move into a low carbon space? At the moment it seems to be saying, "This is all quite expensive. Let us not put more costs on," but what is the solution to that? Surely, it is reducing energy and investing in the future.

Gillian Martin: The solutions to that lie in other schemes and all the work that we are doing with various sectors. There are obviously incentives for decarbonisation in the business support and procurement landscape in Scotland. We are working on a green industrial strategy and there will also be incentives in that. There is incentivisation across the piece of what the Scottish Government puts forward, particularly with our enterprise agencies.

This particular instrument, to my mind and my interpretation, is about keeping the manufacturing and energy intensive industries going and taking away one of the pressures on them, particularly given the global landscape of fluctuating energy prices that at the moment are outwith our control. As we look to the future and have more renewable electricity, in particular, in Scotland, those pressures will decrease.

Douglas Lumsden (North East Scotland) (Con): Does this exemption not add costs to domestic and other electricity users?

Gillian Martin: It adds a very small amount. It is important to mention, Mr Lumsden, that this will be across the UK. Households typically account for about 40 per cent of renewables obligation costs recovered by suppliers. The average cost is currently about £77.50 per year on an electricity bill. The exemption is likely to cost just an extra pound or two.

We do not want a situation where household bills are affected by things like that, but I think the reason behind this is that there is an awful lot more at stake if we do not have an exemption. The particular sectors that are affected by this employ a large number of people, not just in Scotland but throughout the UK, particularly in manufacturing.

The UK Government has decided to increase the exemption to 100 per cent. It has historically been the case that the Scottish Government has not gone on a different path and we too want to stay on the path and have agreed to act alongside the UK Government.

Also, we do not want carbon leakage. If we have a landscape in the UK or Scotland where it is increasingly unprofitable for those industries to exist, the chances are that they will go elsewhere. It will be not just carbon leakage but economic leakage. This is a way in which we can protect those industries from their overheads being so onerous that they might have to think about taking their operations elsewhere.

Douglas Lumsden: Do you have sympathy for bill payers who have to pay the renewable obligation, whereas large consumers of electric are exempt?

Gillian Martin: The UK Government analysis suggests that the amount that would go on to a domestic bill would be 80p or £1.10 per year for the average household. You balance that—80p or £1.10 added on to a bill in a year—versus the potential for people to lose their jobs. I think that that seems to be a pretty fair balance.

I am always concerned about the effects on household bills. The UK Government's review of electricity market arrangements and the reform of the energy markets in general are far more critical in relation to the worries that Mr Lumsden describes. Decoupling the price of gas and electricity would have more of an effect on household bills than anything that this particular instrument does.

Douglas Lumsden: I am trying to highlight the fairness of it. Consumers are having to pay the obligation but large consumers—and I am not just talking about going from an 85 to 100 per cent exemption—are paying nothing at all. Domestic consumers are shouldering this burden.

Gillian Martin: We are following UK legislation. If we did not follow it, what might be the effect of that on Scottish energy intensive industries? I imagine—and Mr Lumsden would be the first to be critical of this—that they might look at a situation where there is a 100 per cent exemption in the rest of the UK but only an 85 per cent exemption in Scotland, and they might decide to relocate their operations. I imagine that Mr Lumsden would join me in being concerned about that. That is why we are agreeing to the UK legislation.

Douglas Lumsden: Minister, my question was whether you think that it is fair that householders are shouldering the burden.

Gillian Martin: I never think that it is particularly fair when householders have to shoulder any kind of burden. I suggest that the review of the energy markets is far more critical in that regard. I look forward to Douglas Lumsden joining with me in asking for protections for consumers, particularly things such as a social tariff, which would mean that vulnerable consumers would be protected from any price increases. In my view, that would be far more effective and far fairer than 80p or £1.10 being added to a bill to save highly skilled manufacturing jobs in Scotland.

The Convener: It sounds like the more shoulders you spread it over the smaller the cost is.

On that note, as committee members do not want to say anything else, we will move on to agenda item 3, which is to debate the motion calling for the committee to recommend approval of the draft Renewables Obligation (Scotland) Amendment Order 2024. Minister, you have spoken to the amendment order, but I will give you another chance to speak to it if you would like to.

Gillian Martin: No, I will not take that chance. I think that I have said everything that I need to say. Thank you.

The Convener: [*Interruption*.] I want to know whether there are any other members—

I am sorry; the clerk is entirely right. You need to move the motion, minister.

Motion moved,

That the Net Zero, Energy and Transport Committee recommends that the Renewables Obligation (Scotland) Amendment Order 2024 [draft] be approved.—[*Gillian Martin*]

The Convener: Does any member want to make any comments post those that they made earlier? No one does. Good. Minister, I will give you the opportunity to sum up if you feel that you would like to.

Gillian Martin: No, I am happy to leave it as it is.

Motion agreed to.

The Convener: The committee will report on the outcome of the instrument in due course. I ask the committee to delegate authority to the deputy convener to finalise the report for publication. Is the committee happy to do that?

Members *indicated agreement.*

The Convener: That is good. Thank you, minister, and thank you to your officials for attending.

09:40

Meeting suspended.

09:45

On resuming—

MV Glen Sannox (Hull 801) and MV Glen Rosa (Hull 802)

The Convener: Welcome back, everyone. Our next item of business is an evidence-taking session with Ferguson Marine (Port Glasgow) Ltd, following the company's latest quarterly update on the MV Glen Sannox, or hull 801, and MV Glen Rosa, or hull 802.

I am very pleased to welcome from Ferguson Marine: Andrew Miller, chairman; Simon Cunningham, non-executive director and chairman of the audit and risk committee; and David Tydeman, chief executive officer. Thank you for joining us this morning—I am sure that your attendance is voluntary.

I would also like to put on record that Jackie Dunbar and I, on behalf of the committee, visited the yard on Friday, and I thank the witnesses for hosting us. The visit was extremely interesting from our point of view. Indeed, having first looked at the ferries many years ago and having followed their progress for a considerable amount of time on the various committees that I have been on—probably more than any other individual MSP, I suspect—I found it very interesting to see where they had got to. Thank you.

I also welcome to the meeting Graham Simpson, who, as I said, is joining us for this session. He will be able to ask some questions at the end.

Before we move on to members' questions, I invite Andrew Miller to make a brief opening statement.

Andrew Miller (Ferguson Marine (Port Glasgow) Ltd): Thank you, convener, for inviting us here today to answer the committee's questions about FMPG.

I am proud to be the chair of FMPG and have been in the role for the past 12 months. We welcomed your visit on Friday, and thank you for coming along—both sides found it mutually beneficial. As you have already introduced my two colleagues, convener, I will not waste any time reintroducing them.

Convener, I am sure that you and Jackie Dunbar saw from your visit just how far we have come with MV Glen Sannox and hull 802. Over the past six months, I have spent a lot of time replacing the vacancies on the Ferguson Marine board with individuals with the capacity, the commitment and the necessary skills to drive the business forward in light of the change that is required.

David Tydeman has been CEO for the past two years and, as you know, he is the accountable officer for the enterprise. I also want to introduce two very important people behind me—Alex Logan and John McMunagle from the GMB union, who have been most helpful to my office during the 12 months that I have been there. I thank them for coming along today.

I remind the committee that, as chair, I have broad and deep responsibilities. Seventy per cent of our employees live in the PA14 postcode area, and FMPG has a massive economic impact on the community that we serve and has a proud tradition spanning 124 years. I recognise my responsibility to Ferguson Marine, our employees and the local community. I and the whole team at the yard recognise, too, that Glen Sannox and hull 802 are of critical importance to the communities that they serve, and I am determined for that activity to happen as quickly as possible.

It has been well documented that the construction of the two ferries has been a difficult journey. Since taking over as chair, I have done all in my power to rectify the situation and steer the yard in the right direction. For seven years, I acted as chair of Glasgow Prestwick Airport Ltd, which, like FMPG, was a state-owned asset of the Scottish Government. During that time, I was constantly aware that funding came from the public purse and that the objective was for the business to put its own food on the table. Prestwick Airport had lost its way, but it now has a strategic future and is no longer a burden on the public purse, and I am determined that FMPG will follow a similar path and achieve a sustainable economic future.

Thank you, convener.

The Convener: Thank you very much. I think that I met you at Prestwick airport when we were discussing the £43 million or thereby that had been put into it.

David Tydeman, I will give you the opportunity to make a statement, too. It was disappointing not to get your update until yesterday, as we had been looking for it on Friday. However, I think that what it is telling us is that the Glen Sannox will cost more money and be delivered slightly—marginally—later and that, because of the lessons learned, hull 802 might be slightly cheaper, if slightly later, too. Do I have that right or wrong?

David Tydeman (Ferguson Marine (Port Glasgow) Ltd): Good morning, everybody.

I should say that the update that we gave you yesterday—and I apologise for not being able to give it to you last week—is an interim one. I will give you a proper quarterly report at the end of March, on the due date.

Yes, the costs of the Glen Sannox have risen by a small amount—2 to 4 per cent—since we discussed the numbers at committee last October. The cost has risen from £142 million to between £145 million and £149 million.

We will have practically completed building the ship by the end of March. We will run the commissioning in the months afterwards, mainly on the liquefied natural gas system, and for the rest of the time—that is, in April and May—there will be handover trials, further testing and client acceptance trials. That moves handover to—I hope—before the end of May or into June; as I said in my letter to you yesterday, we might need some time after the end of May for those final handover and acceptance trials.

As for 802, because of the cascade impact of 801 slipping back a few months, we have moved the delivery date for 802 to no later than September 2025. However, as I set out to you on your visit on Friday, we are in a much stronger place with the second ship. We have learned all the lessons from the Glen Sannox and I hope that putting 802 together will be more of a delivery challenge than a learning or engineering challenge, or a case of finishing the design work, as we have had to do on the Glen Sannox. We are optimistic about 802 and have set ourselves a different target of a cost that we are not to exceed and, indeed, an aspiration to do it for less than that and to deliver it up to three months earlier than the September date.

The Convener: Okay. So you are saying that the worst-case scenario is that the Glen Sannox could cost another £7 million.

I am slightly concerned by your reference to the middle of June. My understanding is that Caledonian MacBrayne have employed crews since 2020—a captain and some officers—but they are still going to take 10 weeks to run through what they need to run through. If the handover is in the middle of June, my maths suggest that the earliest that 801 could come into service would be September, just in time to have missed the summer rush. Am I way off mark on that?

David Tydeman: I think that you will need to check with CalMac about its operational plans. It has been public about saying that it wants between one and two months of familiarisation before service begins, but my target is to hand the ferry over to the Scottish Government, with Caledonian MacBrayne Assets Ltd as its technical representation, as early as we can at the end of May and into June. You will need to ask others about what it will take for CMAL to hand over to CalMac.

The Convener: Well, I think that CalMac has made it clear that it will take 10 weeks to do the training. If I have misrepresented that, I am sure that I can expect a flurry of emails, but it appears that it ain't gonna come into service until the end of August at the earliest—assuming that there is somewhere to put the boat and some way of refuelling it.

Before we move on, I want to make an observation and then ask one further question. Earlier this year, the committee questioned you on the Maritime and Coastguard Agency's obligations and requirements with regard to escape hatches. In fairness, you showed us quite clearly on Friday where those hatches were. As convener of the committee, though, I was disappointed to find myself in the position of having to write, on behalf of the committee, to the Maritime and Coastguard Agency as well as you and the Scottish Government to identify where the problems had arisen and when they were known about. I am not asking you to comment—it will probably suffice to say that I think that there was a certain amount of smoke and mirrors about this, which was extremely disappointing. However, we are where we are.

Can you confirm to me the original design for 801? I need to check my figures, but I think that its capacity was 1,000 passengers, 127 cars and 16 heavy goods vehicles. Will that be the capacity on the Glen Sannox when it is delivered to CMAL in mid-June?

David Tydeman: The carrying capacity of cars and lorries is right. That is one of the loading conditions that the ship's master has; he will have a number of options for configuring the loading.

My understanding is that the bid documentation, prior to contract in 2015, asked for up to 1,000 passengers. The contract with Ferguson Marine Engineering Ltd was actually for 960 passengers when it was novated to us on FMPG being formed in 2019. Since then, our approvals from the MCA are for a maximum of 929, after we have moved the seating, the escape routes and the doorways. CMAL and CalMac have set out that they require 852, and that is what we are building.

The Convener: Okay. I will come back to the issue of the passengers, but can you confirm that, if you have 127 cars on the ferry, you will still have scope to have 16 HGVs?

David Tydeman: No, I do not think that we can have both at the same time.

The Convener: Well, my understanding is that that was the original specification.

David Tydeman: I will need to check that. I have those two numbers in my head—that is, the 16 lorries and 127 cars. As you will have seen, there are four tween decks on the vessel, two of which are raised to create height clearance for lorries in two lanes. I am not sure that we can get 127 cars alongside, but I will check that and come back to you.

The Convener: My concern is that the original tender documents that went out to all the yards specified, as you rightly say, up to 1,000 passengers. Some of the bid returns were for ferries with fewer passengers and vehicles, and they would have been built more cheaply and more quickly, but we are now in a situation where things are taking considerably longer and costing considerably more money, and we have fewer passengers, potentially fewer cars and potentially fewer HGVs. If I were an islander, I would be pretty angsty about that. Would you not be?

David Tydeman: I understand the islanders' comments.

You can put all four tween decks up to the deck head height and create clearance throughout the whole of the car deck for lorries only. Subject to weight loadings, there would be a larger permutation of lorries potentially with cars just on the lower level. When all four tween decks are in place, you can carry only cars. I will come back to you and confirm what those variations might be.

The Convener: Okay. I am slightly concerned, because it was those specifications for the vehicles and the passengers that drove the overall length of the ship at 102m, the weight at 900 tonnes, and the demand for 6.5 knots. It appears to me that, if you change all of that, you might have changed the whole spec of the ship, which to me then raises questions about the whole process of tendering.

I understand that you have to respond to issues, but we are getting a more expensive boat with fewer passengers, fewer cars and fewer lorries on it, and it is still as big as the original size. There are so many moving parts in there—

David Tydeman: Perhaps I can clarify this for the benefit of the committee. The way in which a ship is allowed to operate involves a sophisticated bit of software that the master and chief engineer have available to check that the loading conditions and the permutations of lorries, cars and passengers are all safe. That is in the stability booklets and the vessel's loading conditions.

The permutations with regard to the flexibility of the different car decks will be different. The ship will not be running with a set number of lorries and cars—there will be flexibility. During winter months, there might well be mostly lorry cargo, while during the summer months, there will be a lot of foot passengers and cars.

10:00

The Convener: I accept that fully—there might not always be 127 cars. However, the maximum that was wanted in the original spec was 1,000 passengers, 127 cars and 16 lorries. If we do not have the ability to have that in any permutation as far as passengers are concerned and if we are limited with regard to cars, too, islanders might feel a little bit peeved.

I will come back with more questions at the end of the session. Lots of other committee members want to ask questions, and I will start with Sarah Boyack.

Sarah Boyack: I am not sure who the best person is to answer questions about the LNG installations. The update that you sent us at the beginning of February said:

> "Supply of the final parts of the piping systems should have taken place in the last quarter of 2023, but was delayed".

When did you first become aware of the issue? What action was taken to prevent it from delaying the project?

David Tydeman: We contracted with a prime contractor for the design and supply of the LNG system pipework. The main storage tank and the means of turning the very cold liquid into high-pressure gas were all supplied by a different contractor—the contractor that manufactured the engines that run on the dual fuel.

The pipework to get the low-temperature liquid into the tank, the vent pipework to take the very cold air up and safely away from passengers and crew through the masts and the pipework for the high-pressure gas to move from the conversion unit to the engines to supply fuel to the engines were all contracted for with a specialist company, which is a European contractor with a UK subcontractor.

From about September or October onwards, we were finding it difficult to keep in contact with the prime contractor, which was not returning emails. The LNG market is incredibly busy internationally—a lot of European resources are in Asia building ships. A huge amount of LNG work is going on in Asian shipyards, and UK and European contractors are in demand.

We found it frustrating that we could not get the prime contractor to respond for the last bit of the supply of pipework for the gas lines. The design had been completed, and we just needed the supply, layout and design of the very specialised low-temperature steel. That had to go through classification approval—that means that, for whatever we got in the equipment, the final installation drawings needed to be approved—and we were trying to complete that process in the period from October to December.

We were able to unravel the contracting structure and get the UK subcontractor to come on site and do the work direct for us. That started in January but, unfortunately, it took us from October to December to restructure the contract. That contractor has been on board in the yard since 8 January and will finish installing the last bit of the gas lines before the end of March.

Sarah Boyack: That is really useful. It sounds as if detailed knowledge and experience—from inception right through to delivery—are required and we do not really have that in the UK or in Scotland. Did you discuss with CMAL or Transport Scotland delivering the 801 without LNG capacity? If you managed to have that conversation, what was their response? Quite a big delay has been built into the whole project.

David Tydeman: We did not discuss that for this latter stage. You will remember that, more than a year ago, I updated the committee when we were waiting for vacuum skid components in the system to be delivered and when we thought that commissioning the vessel first with single fuel and then switching to dual fuel might be an option. The client side—CMAL and CalMac—very much wanted us to stick to the contract, stick to the specification and hand over a dual-fuel vessel. That is what we are aiming to do.

Sarah Boyack: The question for those bodies is to what extent increased energy efficiency is a key issue for the project. Will such work be useful for other ships that will be constructed in the UK?

David Tydeman: That is better addressed to CMAL and CalMac. My job is to build to the specification.

Sarah Boyack: Thanks very much—that is helpful.

Jackie Dunbar (Aberdeen Donside) (SNP): Thank you for taking the time to host the convener and me on Friday, which I found very beneficial. I also thank Alex Logan and John McMunagle, who took time out of, I think, their grandparenting duties to come along to answer any questions that the convener and I had. I truly found that beneficial, so thank you very much, gentlemen.

I will carry on from Sarah Boyack's questions about the LNG contractor. Was any penalty imposed on it for failing to meet its contractual requirements? As for having robust processes as a whole, how do you manage contractor performance—not just that of the LNG contractor but that of the other contractors? I will leave it to you, gentlemen, to decide who is best to answer.

David Tydeman: I am still in the hot seat.

Jackie Dunbar: Will you pull your microphone down slightly? I must be going deaf, convener; I am finding it difficult to hear.

David Tydeman: Is that a bit better?

Jackie Dunbar: Yes—thank you.

David Tydeman: All of our 10 prime contractors—whether they are for LNG, electrical work, piping, heating and ventilation or outfitting—are on framework contracts that I inherited, which were signed post-administration in 2020 and 2021. Some transferred from Ferguson Marine Engineering, but my predecessor set up new contractors in 2020 in recovery from administration. Most of those contracts have rates for management overheads and supervision, as well as hourly and daily rates for trade skills, and terms and conditions for the supply of materials. We have called off individual work scopes against those framework contracts across the past four years of building the ships under FMPG.

We have successfully set up different contracts for most of hull 802 that allow us to define larger scopes of work and secure prices for bigger packages of work in advance. As I have mentioned in previous committee meetings and in previous correspondence, under the structure for the past two years, when we have been unable to define large packages of work, it has been hard to get fixed prices, and we have called off smaller packages on demand.

On your question about the LNG supplier, we are still negotiating with the prime contractor on how much we will pay him on overdue invoices. I am taking a fairly tough line on the fact that the contractor has messed us about. The switch to the subcontractor was fortunate; we had an available resource in the UK that allowed us to continue.

Jackie Dunbar: I am glad to hear that you are moving forward with a robust approach.

I thank you for being open and honest on Friday in showing us the designs of the fire exits and the stairwells that did not comply with what is needed. CMAL has indicated that the Maritime and Coastguard Agency has said that it will cost about £1 million to rectify that. Do you agree with that estimate? How much work will it take to rectify the issues?

David Tydeman: I think that CMAL is referring to having asked me about the cost of dealing with the extra stairwells and the 17 doors that have been changed in the passageways, which totals just over £1 million. I am sure that that is where CMAL got that information from, and I concur with it. The rework to put in the additional staircases, the moving of equipment to allow for the spaces that you saw when you visited the ship, buying new doors, changing corridor widths and changing doorframes all totalled just over £1 million.

Jackie Dunbar: Thank you—that is all that I have to ask just now.

The Convener: Before we move off that, can I get a bit of clarity? It sounds as if Tim Hair negotiated piecemeal contracts. Are they the sort of contracts that you would negotiate?

David Tydeman: When we have a clear scope of work, I try to get a fixed price.

The Convener: You are being very circumspect, and I am going to press you slightly. Do you think that because the yard was in receivership, contractors had the ability to call the shots, rather than Tim Hair?

David Tydeman: I think that Tim Hair was in difficult circumstances recovering from administration. He had only just appointed International Contracts Engineering Ltd as the new designers to produce production design and detailed design drawings, and trying to get contractors to do anything other than offer day rates, weekly rates and management charges would have been difficult. I am sure that he had quite a battle when setting up the framework contracts, where you call off work within the framework.

The Convener: That is not something that you would recommend.

David Tydeman: If I were in the same position—straight out of administration—I would probably face the same agenda. We have the benefit now of knowing what we need to do on 802, and we are trying to set up the contractors on 802 differently.

The Convener: So there were framework contracts—his contract was a framework contract and he could pull down money when he did work.

David Tydeman: I cannot comment on that.

The Convener: We will leave that.

Douglas Lumsden has questions.

Douglas Lumsden: I will follow up the questions about framework contracts. David Tydeman said that the approach to 802 is different. When were you able to put in place fixed-price contracts for the 802, as opposed to framework contracts?

David Tydeman: We are still negotiating with some contractors. In this public domain, it would be wrong of me to pick on individual contractors, but I am pleased to say that we have some fixed-price contracts agreed against fixed scopes of work. That is a big percentage of the overall subcontractor work on 802. We are still negotiating with the others as we close down the final design.

Douglas Lumsden: If negotiations are still taking place, can we have any confidence in the pricing that you gave us for 802?

David Tydeman: I have confidence in the numbers, but perhaps my colleague Simon Cunningham would like to speak about the process to ensure that we have confidence.

Simon Cunningham (Ferguson Marine (Port Glasgow) Ltd): The board has risk registers that highlight the risks, a lot of which relate to the contractual aspects. We ask appropriate questions of management and that is recorded. Each risk that is in the risk register has ranges. As a board, we have gone into the detail to understand the 10,000 or so work packs, the whole structure and the critical paths towards completion. The range from the £150 million that was mentioned in the letter to the £140 million target relates a lot to how successfully we can manage those contracts. That is a fair way of describing it.

Douglas Lumsden: Once you get some of the tender documents back, the position will be clearer on having fuller confidence in the pricing.

Simon Cunningham: We already have much greater confidence than we had. To a substantial extent—David Tydeman can confirm this—the contractors that we propose to use on 802 are the same contractors as we have used on 801. They have learned with us on the issues that we faced on 801. We are simply looking to establish firmer contracts with them, which will enable us to deliver some of the efficiencies that the letter that we issued yesterday refers to.

Douglas Lumsden: I will move on to a different topic. David Tydeman was quoted as saying that the sea trials have been "overwhelmingly positive" so far. Will you give us a bit more information on how the sea trials are going? Have they highlighted the need for any remedial work?

David Tydeman: The sea trials have been overwhelmingly positive; I enjoyed putting those words out. They involved four long days. We started gently on the first day, but by Friday—the fourth day—we were doing fairly aggressive full helm to port and full helm to starboard zigzagging manoeuvres at maximum speed to really test the ship. We are very reassured that we did not break anything.

The ship proved to be very reliable, even to the point where we were testing noise and vibration and running full astern at full power—at nearly 10 knots. I am sure that you have all been on ferries where you can feel the vessel shaking as it comes into and out of harbours and power is applied. I can confirm that the Glen Sannox is a smooth and quiet ship. Regrettably, I was not on board; I will try to be involved in other trials. I think that this will be a ship that we will all be proud of.

10:15

Douglas Lumsden: So no real issues have come from the sea trials yet.

David Tydeman: No—nothing yet.

Douglas Lumsden: Will you need to redo some sea trials once the LNG system is back up and running? Is that something else that you have to do?

David Tydeman: I do not see that as an issue. For the committee's benefit, I will put this in context. In sea trials, as the builder's team, we have on board the client, CalMac, a Clyde port authority pilot and various other authorities. We run the trials to test the engines first at 50 per cent of maximum speed, then 70 per cent and 100 per cent. We then switch between providing the power from one engine to both propeller shafts and providing it from the other engine to both propeller shafts. There are 16 different modes of connecting power into the propellers and into the thrusters and we go through all those permutations. We are doing that manually in the first set of operations.

The vessel has a lot of sophisticated automation. From the bridge, you can choose to be in mode 1 or mode 2. The next set of trials involves testing the electronics. We know that the ship works mechanically, but we must now go through the next phase of asking, "What happens if mode 1 fails? Does it switch automatically properly to mode 2?" We will do that type of testing. Finally, we will run acceptance trials with the client on board to formally go through the question whether the client accepts the vessel.

Douglas Lumsden: I guess that you cannot test all the modes without having the LNG system.

David Tydeman: I am sorry—I missed your LNG question. The LNG situation has taken a disproportionate position in relation to the vessel. LNG is a well-proven technology that works and has been used on vessels all over the world. This is the first vessel to use it that we have commissioned in a UK yard, and that is the learning curve. We have appropriate experts to help us with the commissioning process. When we test, all that we will do is switch from running on petrol to running on batteries—a little like in a hybrid car. A user will not really notice the difference; we will switch from diesel to gas running the engines or the generators.

Douglas Lumsden: Okay. I think that you mentioned that 801 is due to go back into dry dock after the sea trials. Will you explain what that is for? Will any remedial work take place once it is back in dry dock? Was that planned?

David Tydeman: There are two reasons for going into dry dock. The first is to enable the final underwater survey, when the certifying authorities will walk the underneath of the ship and physically check rudders, propellers and other things that are underwater. There will be a visual inspection for one or two days in dry dock. The other main purpose is to clean the vessel. She has not been in dry dock for a year and we know that she is carrying quite a bit of underwater weed. We expect that that will have limited the speed that we experienced two weeks ago in trials. I expect her to be up to proper performance when we come out clean on 7 April.

Douglas Lumsden: Nothing came up in the sea trials that will be looked at in the dry dock period.

David Tydeman: That is correct. It is just a routine final part of the process.

Douglas Lumsden: That sounds good. I think that you mentioned that 801 and 802 contain certain components that are no longer under warranty due to their age and, probably, lack of use. Is it still a concern for you that some components are out of warranty? How will you address that?

David Tydeman: We need to put warranty carefully in context. In the contract, Ferguson has a warranty responsibility to the client to support the vessel for 12 months. Normally, we would be able to rely on the individual manufacturers of the engines, the thrusters and the electronics to support that with their warranties and their undertakings to Ferguson. However, because the engines were bought in 2016, those warranties have expired. We still have the front-end responsibility to support the ships and we may need to call on the engine manufacturer, for example, to come and support something that has broken or failed on the engine. The difference is that we will have to pay for that rather than the supplier doing it on his budget.

We have some warranties that have survived and been renewed. For example, when the Glen Sannox went into dry dock a year ago, we took the opportunity to take out the propeller shafts, take the propellers to pieces and take out the thrusters that were installed on the ship before she was launched in 2017. We put the new ones that were available in the warehouse for 802 on to the Glen Sannox and we have refurbished the ones that have been in the water for five years so they are ready to go on to the second ship. All of that has been done with the appropriate certifying authorities and with CMAL being involved in checking the components.

Douglas Lumsden: When you build a vessel, how long are the warranties that manufacturers give you for engines and things? Are they for three years or five years? How does it work?

David Tydeman: They vary between one and two years.

Douglas Lumsden: Okay—thank you.

The Convener: When 802 is handed over, you will be responsible for 12 months' warranty.

David Tydeman: Yes.

The Convener: That speaks to the importance of keeping Ferguson Marine afloat. Otherwise, there would be no one to fulfil the warranty. Maybe that will be more expensive. Anyway, on that happy note, we will move on to some questions from Mark Ruskell.

Mark Ruskell: How much of the contingency budget has been used? If we put the LNG issue to one side, will that budget be sufficient? Is there any danger that it will not be enough?

Simon Cunningham: The way that the board looks at that is to look at the project risk registers, which set out the different aspects of uncertainty relating to the contract to completion. For each of those—they are categorised as red, amber or green—we are able to look at what impact they might have on the timeframes and the costs. The board gets two risk registers for 801 and 802 that run through the different components. On the basis of the assessed likelihood of each impact, we can identify the range of cost variations that there might be. That feeds into the contingency between our target cost, which is £140 million for 802, and the upper limit, which we have stated is £150 million for that vessel. The board gets a lot of detailed information each month to show progress on each vessel.

In January, one of the board members was in the yard for a few days to go through the business plan for 802 in great detail, so we have a much more detailed understanding of the individual steps and the different components and we can look at the risks that are associated with them. We have mentioned 10,000 work packs. We have seen the evidence on how they flow into critical paths and we have updated the risk register. Four board members were out for a day going through all of that and updating the risk register, so we are comfortable with what we have on that front.

The uncertainties associated with the Glen Sannox are reducing with the successful sea trials. We are getting greater confidence and assurance that the previously identified risks will not be realised. As we have mentioned, the component that involves LNG and the subcontractor is one of the remaining elements of risk. The board is getting weekly reports on how all the individual uncertainties that relate to those risks are being managed and on the progress. We have plenty of visibility and increasing confidence that we will deliver on 801 and the Glen Sannox.

Mark Ruskell: If there are any major changes to that, you can notify the committee on the back of those board papers. We have had good correspondence with you, but if that picture changes—

Simon Cunningham: Yes. As I said, the board has weekly visibility of the progress, certainly on the Glen Sannox and the LNG commissioning. There is one other red risk, which relates to the completion of the installation of the other lift. Those are the only red risks in the risk register.

Mark Ruskell: We have covered those, so that is fine.

David, last time you were in front of the committee, you made the case for capital investment in the yard in order to keep it competitive. Will you update us on where that is at and comment on your plans, alternative sources of investment and the Scottish Government commitment?

David Tydeman: I can talk about that technically. I am sure that Andrew Miller can give you a better answer on the process. We know that the yard needs to be improved, and there are various levels at which that could be done. We are quite capable of building the next range of small ferries with the current facilities. We could do it better if we had some upgrade to the layout, the cranes and a few of the facilities. The larger plan that was put on the table last year was for a much more sophisticated upgrade that would put us in a broader competitive position for building larger and more complex vessels in the future. I will let Andrew comment on the journey and the decisions between the lower level and the more sophisticated level.

The Convener: Andrew, will you comment on that and remind the committee of the capital investment that you were looking for about a year ago?

Andrew Miller: The plans that were submitted about a year ago were quite chunky. One of the issues with the enterprise has been that it has been myopically focused on completing 801 and 802, and the understanding of the future has been somewhat thwarted by that focus. That capex was quite chunky for the shareholder to digest, especially against the backdrop of global shipbuilding and given that the UK is not the epicentre of—

The Convener: If I remember rightly, the figure was roughly £25.9 million. Is that correct?

Andrew Miller: Yes. Now that the board is up to strength, we have been working on chunking down some of the market opportunities, chunking down the capex and looking at longer capex applications to try to find a sweet spot. That requires quite a lot of input and help from the market, given the skill sets that we need. Building a competent financial model for the enterprise has been quite challenging, but we have that now, so we have the ability to run certain scenarios. For instance, one of our major competitors does not have any capacity in its yards until late 2027 because this happens to be the most buoyant time in 50 years for commissioning vessels. Of course, most of them are military applications with higher margins, and there is a good reason why we are the last commercial shipyard in Scotland, especially if we consider what has happened since the 1960s.

We are working through that with a lot of rigour to make sure that we can navigate the sweet spot but, clearly, we are looking to put our food on the table through performance. That is proving slightly difficult given the market that we are in, our history and our background, because it shows us that the future is not in large ferries. They are a bit too big for the company to digest, but we are very aware of where the market will be in the future and where the work and income streams could come along. The big area of debate is obviously the small ferries programme and how we effectively bid for that work with a slight contamination of our cost base, based on building these large Rolls-Royce ferries, if you get my drift.

Mark Ruskell: In terms of—

The Convener: Sorry to interrupt, Mark, but I am keen to push our witnesses on the figure. Do you have a figure for capex for the small ferries programme?

Andrew Miller: Simon, do you want to answer that?

Simon Cunningham: Different levels of capex will deliver different levels of efficiency and different timeframes. We would like to get to maximum efficiency as soon as possible but, in practice, that may not be achievable. We will need some capex in due course to increase the efficiency and get us started. I think that that is a fair way of stating it.

10:30

The Convener: Okay. I will butt out and go back to Mark Ruskell. I am sorry for jumping in, but I wanted those figures.

Mark Ruskell: That is okay. We will get around things eventually.

What I am hearing from David Tydeman is that the yard is able to bid for the small vessel replacement programme with the facilities that it has at the moment. Is that right? Is it right that, even with limited or no investment, you are still able to do that, or is short-term investment required at the yard to enhance your bid or enhance it a little bit with an eye on more medium-term opportunities? I am trying to unpick whether there is a barrier to the yard bidding for that programme.

David Tydeman: I do not believe that there is a barrier to bid. I am sure that Alex Logan and John McMunagle, who are behind me, would support that. They were part of the team that successfully built the three small hybrid vessels between eight and 12 years ago with the old Ferguson Shipbuilders facilities. With the facilities that we have now, we could be quite capable of building the seven small ferries that are in the pipeline.

We would be more efficient if we could make a few changes. As Andrew Miller said, we are modelling those changes. They involve anything between £50,000 on improving some of the software systems and a full-on shipyard management system of £1.5 million. There is a range of software options. Similarly, there is a range of options on what we might do with cranes, plate handling and burning tables. We are running through those scenarios.

We will be more efficient if we spend some money. On what is absolutely necessary to get the small ferry programme started—I use that word deliberately—we could upgrade the yard in parallel with starting a programme with seven small vessels.

Mark Ruskell: When you were previously at the committee, you talked about what the small vessels programme would involve. I would not say that electric propulsion systems are easier, but they can be produced off site and brought in in a modular fashion. What changes would have to be seen at the yard to carry out such a programme? Would they be changes in the way that the workforce is orientated or retrained in certain areas? I am trying to envisage what has to happen at the yard to put it on to that programme and to move fully into that for a period of time while you are building up for medium-term and longer-term possibilities.

David Tydeman: An electric ferry involves a large, bought-in battery bank and bought-in electric motors for the propulsion systems. I believe that there will be four of those, with one in each corner. There are switchboard systems that distribute electric power. There might be a small generator as a back-up for generating electricity on board, not just from the battery bank, to use for what I call hotel services. That involves keeping the lights on in passenger areas, the navigation systems and so on.

A lot of small ferry design will be bought in from specialist suppliers. There is then installation activity for Ferguson. The efficiency of the yard is therefore in two parts. It is about the efficiency of putting together the steel structure and the efficiency of managing the supply chain and the installation work.

I think that we are capable of doing both a lot better than we have done with the two large ferries, as they are much more complicated. We have proved ourselves well with the hybrid vessels, which are just a version of the same challenge. However, in some ways, things are easier with just electrical power.

Mark Ruskell: Which bits of those two sides of the work require more investment and focus in the organisation? Which bits are you ready to go with and which bits require more time, adaption and support?

David Tydeman: The small ferry programme is relatively simple in respect of the amount of equipment to be bought in. Thousands and thousands of components are not bought, as we have done for the large ferries. The programme could be run on a laptop. It involves that level of simplicity compared with the very sophisticated programme that we have had to run for complex vessels over the past few years.

The steelwork side is about facilities, cranes, handling and that type of routine. We could certainly benefit from upgrading our burning table for cutting the steel to begin with and upgrading some of the handling methods of lifting plates and moving them around through the yard. I would like to see some improvement in the handling facilities. It is relatively simple to manage a low sophisticated programme such as the small ferry programme. As I said, we could largely do that on laptops. Over the coming years, we have the opportunity to ask what we want to upgrade further to take on more sophisticated vessels in three or four years' time, for example.

The Convener: I want to push you a wee bit on that before I go to Bob Doris, so that I understand it. If you invest in the yard and make things easier to do, your prices could be cheaper for the contracts that you bid for because the approach would be more efficient and worth while.

David Tydeman: Absolutely.

The Convener: Is your underlying message that, if the Government does not invest in those items, you will not be as cheap as other people are in respect of building small ferries? Have I completely misunderstood that?

David Tydeman: I am trying to stay focused on the delivery challenge of running the yard rather than on giving a message. If we improve our means of productivity throughput, we will certainly be able to price more competitively.

The Convener: Thank you. That is what I was after.

Bob Doris (Glasgow Maryhill and Springburn) (SNP): That is where I wanted to come in, convener. However, first of all, someone out there will be watching this exchange, and we keep talking about capex. Can we not speak in code, and can you be clear about what you mean by capex?

David Tydeman: Capital expenditure. I am sorry.

Bob Doris: I knew that, but let us not codify in a way that is not accessible to the general public. That is really important.

We have had some reassurances that the small vessel replacement programme will be more stable, there will be fewer risks, and there is already more certainty about delivery compared with that for the two complex vehicles. Mr Ruskell established that in exchanges very well. There was a bid for £23 million or so of capital money to upgrade the yard in order to make it more competitive for bidding for anything commercial, including the seven vessels that may come from the Scottish Government. Mr Miller talked about the initial bid being clunky. Can we not speak in euphemisms? What do you mean by clunky? Apologies—you said "chunky". The bid was too high, was it not?

Andrew Miller: I did not know that "clunky" was a technical term.

It is about cutting down, either through time, or by splitting the capex into smaller modules, and delivering the same. Longer time means more inefficiency, of course. It is about taking different levels of capital expenditure and applying different volumes of activity. A small ferry brings one thing. You missed out that it is about volume, as well. The volume of the ferry programme allows greater efficiency in handling the work.

Bob Doris: In my head, £23 million or whatever at today's prices, invested now, would do everything that you wanted the yard to do, but it could be phased in over a longer period of time and there would be different degrees of efficiencies.

Andrew Miller: Yes.

Bob Doris: That would make it more palatable to the public purse.

Andrew Miller: Obviously, however, with longer time, the inefficiencies can sometimes be counterproductive.

Bob Doris: Okay. I know that you have to answer this question in a roundabout way, but for every £1 of capital investment the public purse gives Ferguson, does that take £1 off the cost to the taxpayer of delivering the small vessels in the first place? That is what we want to know. If you are saying that we could deliver them more efficiently, I hope that that means more speedily, to a higher standard and cheaper. For every £1 of capital investment that the Government gives to Ferguson, does that shave £1 or more off the overall cost?

Andrew Miller: I am an economist, but I do not think that I can answer that question because it is quite complex and difficult to do that.

Bob Doris: I hope that someone can give light and shade to the answer to that.

Simon Cunningham: In reality, that is exactly the modelling that we are doing at the moment. We are looking at various scenarios and levels of capital expenditure that we could utilise and how they would impact on the efficiency and the costs of delivering various options, the small ferries being one of them. That is exactly the information that we are pulling together. We will set out the various scenarios and discuss them with the shareholder—the Scottish Government. If we invested £X million in doing this, to what extent would that impact on the pricing of a contract for a small ferry, for example?

Bob Doris: Without giving how much you could shave off the tender that Ferguson could make for the small vessels fleet, can you give an idea of the relationship between capital investment from the Scottish Government and cost savings on any future procurement?

Simon Cunningham: This is maybe not a very satisfactory answer to that question, but it is clear that, if the capital expenditure that we were looking to invest was not going to make any difference, it would not be worth investing it. It will clearly make a difference at different levels. The modelling that we are doing at the moment and the different scenarios that we will discuss with the Scottish Government set out exactly that. That work is in progress. We have a timeframe over the next three to four weeks for the modelling for that. That is roughly what we are looking at.

Bob Doris: I will make the briefest of comments rather than ask a follow-up question. I am not trying to be awkward about the issue. It appears to me that, under your tutelage, Ferguson and the workforce representatives whom I can see sitting in the public gallery have come through a really difficult period and a quick learning curve in recent years in fixing a lot of errors that predecessors made, and Ferguson is very close to being in robust health. However, for additional taxpayers' money to go in, we have to be very clear and transparent about what we are getting for our money. It almost seems that Ferguson could be held to a higher standard than otherwise would have been the case because of what has happened previously.

I hope that we get to a position at which appropriate capital investment could be made, we can be clear about the efficiencies that that would give to the yard, and we can retain strategic commercial shipbuilding and the workforce in Scotland. However, we need transparency about what we get for our money.

The Convener: The Government would also have to look very carefully at state aid rules relating to investing in yards that bid for contracts. That becomes an issue. We have struggled to understand that as a committee, and I am sure that the Government will want to lay that out.

I am looking around the committee to see whether there are any further questions before I bring in Graham Simpson. I do not see that there are any. I will not say that the floor is yours, Graham, but you can ask some questions.

Graham Simpson (Central Scotland) (Con): Thank you for all the responses to questions so far; it has been really interesting. I want to follow up on the line of discussion about extra investment because, Mr Tydeman, you have been clear for some time now about the need for extra investment. I will quote what you said when you last came to the committee. You were talking about the need for the previous cabinet secretary, Neil Gray, to come back to you "as soon as possible". You went on to say:

> "The productivity is low in the yard, as we know ... we know that we are not as competitive as other yards that have modern plating lines and modern facilities ... we will not get to decent productivity until 2026"—

presumably, that would have been the case if you had got the money that you were asking for—

> "which ... makes pricing the small ferries harder. The longer we postpone it, the harder it gets."—[*Official Report*, *Net Zero, Energy and Transport Committee*, 24 October 2023; c 28-29.]

Are we not still in that position?

David Tydeman: Yes, I stand by those words. What we were discussing then was the two-year lead time for a plating line. To put it into context for the committee, the £25 million upgrade would have been for turning Ferguson's facility into a small version of what BAE Systems has in Govan: a sophisticated automated plating line buildings layout to enable us to work in that way and to build a large section of a warship or any other sophisticated vessel. It is called a grand block. You build a section of the ship and, to be able to do that in a cost effective and efficient way, you need automated plating lines, because the volume of work is large and the handling needs are large.

10:45

That is where the yard still needs to aim to be in three or four years' time. The journey towards that is best enabled by two things that we have talked about before. First, there is the small ferry programme, which is repeatable work. We can get into a rhythm in building up to seven vessels, I hope, and then follow-on vessels in the ferry market.

Secondly, in parallel with that, we can do smaller work for the military supply chain. We can handle that smaller work without the sophisticated plating line, but, to be fully competitive in the future, we need a sophisticated upgrade. We can get through part of the journey over the coming years without that, and we can certainly build the small ferries at a reasonable productivity level with what we have or a smaller upgrade. As my colleagues have said, that is what the board is modelling and working on over the next month.

Graham Simpson: You—and, indeed, the unions—have been clear that we need to build a future for the yard and that it needs to be modern and efficient. You would not argue that it is modern and efficient now, and, to get to that point, it needs further investment. You were pretty clear that you needed a quick decision on that, but that was rejected. Given that the request for £25 million was turned down, how do you see the future now, if we are going to muddle along with what we have and have smaller amounts of investment spread over a number of years? How will the yard turn itself around on that basis?

David Tydeman: The sophisticated plating line is about positioning the yard for broader, more complex vessels in the future, whether those are wind farm support vessels, offshore patrol craft, the broader market or larger and more complicated ferries. The lead time for that equipment is the same as it was when we were talking in October. It is 18 months to two years, so I stand by my words that, if we do not join the procurement queue, we keep delaying the date by which we might have such equipment installed. If we can get the small ferries contract secured in the coming months, it will take us a year to 18 months of planning before we can cut steel, so there is a time window in which we need to get moving, even for the small ferry programme.

We could upgrade the yard on an interim basis—stage 1, if you like—so it would not be wasted money. Stage 1 would improve productivity. We could do that without buying sophisticated equipment on long lead times, so we could improve the yard significantly over the coming months and the next two years in parallel with completing 802.

Graham Simpson: As things stand, would you be competitive price-wise and time-wise with other yards around the world when pitching for small ferries?

David Tydeman: At the moment, I think that we will be at a small premium. We are trying to quantify that at the moment, but we will be at a premium compared with some of the cheaper yards in Europe.

Graham Simpson: That is useful. Mr Cunningham, you said earlier that you were working on producing some figures over the next three to four weeks. Is that right?

Simon Cunningham: Yes. That is the modelling for the future business plan. It looks at the impact that different levels of capex would have on productivity and what that would enable the yard to do in the future.

Graham Simpson: Will that plan be put to the Government?

Simon Cunningham: Yes.

Graham Simpson: In four weeks' time, you will be—

Andrew Miller: Not in four weeks. The Scottish Government has its own component. This is just our part, which is the operation aspect. I think that the intention is for the end of May. The complexity is in the market testing and the state aid issue. It is quite a detailed model to produce along with the capex and the market data to see what the level of assumed subsidy would be—that is the complexity.

Graham Simpson: You have confused me.

Simon Cunningham: That is probably my fault.

Graham Simpson: Between the two of you.

Simon Cunningham: The timeframe that we are working to on the models is the three or four-week timetable.

Andrew Miller: By the end of March.

Graham Simpson: You will have your figures ready in four weeks.

Simon Cunningham: Yes, we are committed to working to that timeline.

Graham Simpson: But you will not give those figures to the Government until May.

Andrew Miller: No. There is a decision-making process that is clearly about affordability, budgets and so on, which the Scottish Government has to roll into a bigger model. We cannot produce the business plan with capex and do it on our own. We need the Government's support.

Graham Simpson: Were you going to say something else, Simon?

Simon Cunningham: The timeframe that we are working to is the timeframe that our team at Port Glasgow are working to with the modelling. It is a three or four-week period, and we are getting updates and discussions on that weekly at board level.

The Convener: Before Graham Simpson asks his next question, will the witnesses clarify something for me? You said that you put these figures to the Scottish Government. Does that mean that you go straight to Màiri McAllan, who is in charge of it, or do you have to report to somebody else who reports to somebody else who reports to somebody else and then it gets to Màiri McAllan? I do not understand the procedure. Perhaps you would explain that to me.

Graham Simpson: I do not understand it, either.

Andrew Miller: We work with the sponsoring department on all issues.

The Convener: Is that Transport Scotland?

Andrew Miller: No, I think that they call it the strategic asset management group. I cannot remember what the name is.

The Convener: The figures go straight to the group, which takes them to the cabinet secretary.

Andrew Miller: They ask questions and we answer. It goes through a rigorous process. We clarify some things, they get to a stage of comfort and then, I believe, the figures go with a recommendation to the minister.

The Convener: So there is just one filter.

Andrew Miller: But there are many people in that filter.

The Convener: There are lots of filters within one filter. Sorry, Graham—I interrupted you.

Graham Simpson: I think that you are probably as confused as I am by this, convener.

In four weeks' time, you will have prepared your figures. I am still not clear what happens after that. Why is there a delay between you producing your figures and the figures going to the Government?

Andrew Miller: If you had a commercial business with shareholders, you would come up with a capital investment plan and present it to the shareholders. There might be many of them—it might be a publicly listed company—and you would ask them whether the rate of return, or dividend, in the numbers was acceptable over a period of time. The shareholders might say, "Yes, that is good. We will back that investment plan" and away you would go. That is the capital expenditure model process that we are going through just now, and we are working very hard at it.

Graham Simpson: To be honest, that has not really cleared things up for me.

Andrew Miller: How do you want us to make it clearer?

Graham Simpson: You need to make it clearer. If you produce your figures in four weeks' time, you will surely take them to the Government straight away at that point.

Andrew Miller: Yes.

Simon Cunningham: The Government will have various scenarios or options that we will have modelled in three or four weeks' time—I am not sure exactly what the deadline is. At that point, I imagine that the Government will want to come back and discuss with us various aspects of the proposals that we have put forward. I presume that there will then be a discussion process before the Government is in a position to make an assessment of the various scenarios that we have presented to it.

Graham Simpson: Okay—we got there.

Simon Cunningham: Does that help?

Graham Simpson: That is fine. There is one more thing that I want to ask. Yesterday, Màiri McAllan wrote to the conveners of thfis committee and the Public Audit Committee. In that letter, she says:

> "The former Cabinet Secretary, Neil Gray, had impressed upon the CEO"—

that is you, Mr Tydeman—

> "that further delays and cost increases would be inexcusable".

However, there have been further delays and cost increases. Has the Government at any point said, "You have to stop spending"?

Andrew Miller: For the record, we were asked to improve the situation that we had; those were the instructions of Neil Gray, the previous minister.

Graham Simpson: Màiri McAllan also says in the letter that she will be seeking an "urgent conversation" with you, Mr Miller, so you have that to look forward to.

Andrew Miller: We have already had a conversation by way of introduction.

Graham Simpson: Thank you, convener.

The Convener: Thank you, Graham. You are a very disruptive influence on the committee because, subsequent to your questions, there is a whole heap of members who want to ask more questions; I do not know whether or not I welcome your attendance.

Sarah Boyack: I have a couple of questions that have been sparked by Graham Simpson's questions. We have focused on the 801 and 802 ferries, but the responses to some of Graham Simpson's questions have prompted some other questions about additional opportunities for construction at the yard.

You mentioned wind farm support vessels. Importing and moving wind farm products around the country and our seas for onshore and offshore developments is a huge part of Scotland's economy. The other thing that prompted a thought was about the repair and maintenance of existing ferries, which has not been mentioned. It is not just about building new ferries. It is about having ferries that run on time and are safe, and that can be innovated or upgraded. There are therefore two other potential opportunities in the market through CMAL and the wind farm and renewables industry. Could you comment on whether they will be opportunities for the yard in future?

We have had a lot of discussion about additional infrastructure. To what extent would additional infrastructure to upgrade the yard provide opportunities for a new market for the yard going forward?

David Tydeman: The wind farm market is very attractive. A lot of vessels will be bought by the industry and the market operators, and a lot of vessels are already in build. We have been in discussion with one Scottish operator who is committed to buying 20 or 25 vessels over an extended period, then leasing them into the market. They have ships in build in Vietnam and Spain at the moment.

We have had some discussions about that design and whether we could build them at Ferguson. We are significantly more expensive than Vietnam, as you might expect. Our prices are closer to the Spanish prices but they are still at a premium. We could not be competitive for that type and scale of vessel—they are nearly the same size as Glen Sannox and 802—without improving the plating line and the handling facilities to a higher level of sophistication.

We are capable of building the smaller crew transfer vessels that move crews in and out of the wind farm operations. They are more like a small ferry. A number of yards are already well established in that market that have their prices down and their drumbeat going—they have already gathered momentum. It is possible to enter that market but it needs some careful strategic planning. Those markets are there.

One operator that is committed to Scottish wind farms wants a sophisticated vessel for delivery in 2029. The design work on that would not start until summer 2026, with construction starting in 2027. That does not solve our immediate short-term issue.

We have looked at offshore patrol vessels for various foreign navies and coastguards, and one is on the radar at the moment. We would start work on that in 2026 for delivery in 2028.

Both of those projects risk us repeating some of the 801 and 802 learning because they are first-of-class vessels. I would like to learn to walk again before we try to run.

The Convener: I am nervous that people from the Economy and Fair Work Committee might be listening. We are probably right at the margins of where we can be as far as the scrutiny of 801 and 802 and the yard's future goes. Although I find it very interesting, I do not want the convener of the Economy and Fair Work Committee breathing down my neck. Bear that in mind, committee members, although I will take the pain if I have to.

Sarah Boyack: That was helpful. I was thinking about ferries in general, not just those two ferries. The other thing I wanted to ask about was the repair and maintenance of existing ferries. If that is for somebody else—

The Convener: You have asked the question. I am not going to stop you doing it. I will just take the pain from the convener of the Economy and Fair Work Committee.

David Tydeman: Repair and maintenance is a different business and it requires different facilities. In a lot of shipyards, if you try to mix service operations with new building, it is not always a success.

Sarah Boyack: Okay. I just thought I would ask. Thank you.

11:00

Bob Doris: I have a much more mundane question, coming back to clarification on Glen Sannox and Glen Rosa. I do not know whether other members have questions on this topic.

The Convener: I am happy for you to go ahead.

Bob Doris: Okay. In the exchange with the convener about what was in the tender for the two ferries that will shortly be completed, the convener made the point that we are paying more and getting less. I want some clarity around that.

David, you said that the tender was for up to 1,000 seats but that it did not have to be 1,000 seats. Can you confirm what was in the original tender document? Also, if I can roll all this together, you said that the number of seats was reduced to 926 because of other work that had to be done on fire safety, evacuation and different things, but your client requested 852 seats. I just want to be clear that the client is still getting the seating capacity that it requires and that, technically, there is some flexibility to add a small amount of additional seating if need be. Have I captured that correctly?

David Tydeman: Yes, I think that that is right. I cannot be accurate about the tender documents because they were before my time and were with Ferguson Marine Engineering Ltd, not our current company, but I understand that the figure was 1,000. Our contracts certainly say 960.

Going back to your earlier point, convener, the contract for carrying capacity is also set as a deadweight capacity in total number of tonnes. If my memory serves me right, 878 tonnes is the deadweight carrying capacity that we are obliged to meet with cars, lorries or a combination of vehicles.

On the passengers, the 960 figure was reduced to 929, but that meant a higher density of seating and actually lowering the standard of seating. The 960 was a specification that CMAL gave right at the start and it was CMAL's decision to reduce it to 852. You would need to ask it about seasonal patterns and why the 852 is enough.

Bob Doris: Technically, you have surpassed the seating requirements of your client. That is what I am trying to get at.

David Tydeman: Yes.

Bob Doris: I am sorry if I get the numbers wrong—the exchange between you and the convener was complicated—but was it always intended that the original design would hold 127 cars and 16 lorries all at the same time? My understanding was that that was not the case.

The Convener: I will allow this to continue, but I am putting it on the record that I am pretty sure that I remember the contract and the specifications. I ask you to be careful, Mr Doris, because you are pushing slightly on something that you are saying might be incorrect. I will research it afterwards and we will come together again.

Bob Doris: I am not pushing anything. I am happy to be told I am wrong.

The Convener: I am suggesting politely that you might want to think carefully about the questions that you are asking.

Bob Doris: I do not think that this is contentious at all. I just want clarity. I assume that you want to curtail my line of questioning, which is quite a mundane line of questioning actually. I just want clarity. Thank you.

Let us get that clarity now. Did the original document say 127 cars and 16 lorries all at the same time? If you are right, convener, I am happy to apologise, but I just wanted clarity on that. I was not saying that you were wrong.

The Convener: My understanding, Mr Doris, and I am pretty sure that I am correct, is that the original specification that was put out to tender was for 1,000 passengers, 127 cars and 16 lorries. It might have been changed subject to tender, but that was in the original tender documents that were submitted.

Bob Doris: It would be good to hear from the witnesses, convener.

David Tydeman: I said earlier that I would clarify this. I know the numbers of 127 and 16. I also know the deadweight carrying capacity, which is an overall weight that could be made up of a variety of permutations of cars, lorries, and passengers. I said earlier that I would come back to the committee and clarify that.

Bob Doris: That is fine. Is the overall tonnage the same? What I got from your exchange—and this is what I want clarity on—is that weight-bearing vehicles and lorries have to be placed strategically and safely on the vessels to make it seaworthy and safe for everyone travelling on them. Has the maximum tonnage that the vessels can take remained the same or has it had to be reduced?

David Tydeman: We have not had to reduce the target tonnage and the deadweight. The carrying capacity will be verified in the final handover trials. We are still aiming to meet contract on carrying capacity. It is only the number of passengers that has been reduced.

Bob Doris: Convener, let me apologise to you if I was a little bit prickly in our exchange there. I was not trying to undermine your questioning; I genuinely wanted to get clarity to better understand it. If I have done that, my apologies to you, convener.

Ben Macpherson: My question is on the same area that the convener and Mr Doris raised. When you write to the committee, I would be grateful if you could emphasise the benefits of the flexibility that you spoke about in answer to the convener. You may want to touch on that now but, as you alluded to in your answer to the convener, at different times of the year, demand will be different—for example, I think that you said that more lorries are transported in the winter and there are more passengers in the summer. That is an important flexibility in the vessel and an important aspect of the capacity that you may want to elaborate on in your correspondence, or now.

David Tydeman: It would be better if that information came from CMAL or CalMac. I do not have access to the data or historical records that led them to ask for 1,000 passengers in the first place. They have the market and operational data. I can talk about the permutations that we are building, and I will happily do that in the response.

Ben Macpherson: That would be helpful, because it is important to emphasise that the vessel has that flexibility.

I have one more question, convener.

The Convener: Sure—there is no rush.

Ben Macpherson: It was stated earlier that there is a market for defence vessels and that there is likely to be more defence spending by the United Kingdom Government and other Governments. Have you had any dialogue or correspondence with the Ministry of Defence?

David Tydeman: We have not had that directly with the Ministry of Defence. We have had conversations with Babcock and BAE. I sit on the National Shipbuilding Office strategic shipbuilding enterprise group, so I have access to some of the planning of UK shipbuilding. There is a lot of work in the military programme, and we could be a good subcontractor in that supply chain.

Ben Macpherson: Thank you.

Douglas Lumsden: I have what I hope is just a quick question on the capital investment in the new plating line. If that investment does not come through, would that make returning the yard to private ownership more difficult? Is it still the board’s aim to move the yard back to private ownership?

Andrew Miller: It is still the aim to return the business to private ownership, but clearly that would be with a better-than-break-even situation with a long-term future. Obviously, it depends on the market and where we are, but that is the intention.

Douglas Lumsden: Does the lack of capital support make that more difficult in the long term?

Andrew Miller: It definitely makes it more difficult in the short term, as we try to move the yard towards better levels of efficiency. It does not help—let me put it that way.

Douglas Lumsden: Can you give an estimate of when the yard could go back into private ownership? Are we talking five or 10 years? What do you think?

Andrew Miller: That is a difficult one. It depends on the capex. The market is strong—the strongest that it has been in the past three years—and there is plenty of work out there. It is about our ability to grab that work and do it efficiently, and it will take some time to reach that stage. It will be no less than 18 months and probably nearer five years.

Douglas Lumsden: Right, but without the capital investment, that will be harder for the Government.

Andrew Miller: It is harder. As David Tydeman knows, we keep our eyes and ears on the market. We have lots of conversations with people about being a jobbing shop to help them to get over the lack of capacity in the UK generally. That tends to be on the military side, where there are lower tolerances of manufacture because the margins are a lot higher, so more technical sophistication is required.

Douglas Lumsden: Thank you.

Mark Ruskell: Further to that, beyond Government investment, which other sources are you looking at for investment in the plating line and the medium-term improvements that are needed?

Andrew Miller: The Government is definitely the first port of call, because it is a shareholder. One would expect that its rates of return would be somewhat lower than those of commercial lenders in the marketplace. We would have to be very brave in the way that we exploited the open market opportunities. The Government is the first port of call.

The Convener: Members have no more questions, but I have a couple. David, when we were at the yard, you stressed the learning that had been taken from 801, which meant that the mistakes were not replicated with 802. I understand that that is why 802 has sat on the slipway for longer—it is so that more of it could be built on dry land, which has made things easier. Is that accurate?

David Tydeman: It is certainly easier to build on a slipway than when a vessel is afloat. The more that we can do on dry land the better, until we reach the maximum weight that we are comfortable with launching. We will reach the maximum weight on 9 April—she will be launched then, mainly due to weight. It will be the heaviest ship ever launched in the shipyard in its 124-year history. We will launch it on the high tide and then continue on the quayside.

The Convener: The yard has learned lessons from these very Rolls-Royce ferries, as I think you described them, as you have gone along. I think that you came into the yard on 1 February 2022, which probably seems a lifetime ago. I am concerned that, from about 2019, not a lot of learning appears to have happened from the errors on 801. Do you have a comment on that?

David Tydeman: The restart from administration was complicated and was made harder with the pandemic. We were in transition from completing what is known as the basic design, where the fundamental naval architecture, the structure and the principal dimensions of the vessel were all nailed down by Ferguson Marine Engineering Ltd—or most of them were; there were still some gaps. My predecessor had the complexity of appointing new designers in February 2020 to pick up all the detailed design and historical records from previous designers and then had to produce all the production design drawings. When I arrived in February 2022, we had 27,000 drawings and more than 1,000 design queries on the table. That is what I started with. That had surfaced in the two years prior to my appointment.

The Convener: You went through a huge learning process. I want to understand whether the client—CMAL—went through a huge learning process as well. It appears that, over the period from the original award of the contract to 2020, CMAL's learning experience was fairly limited, or was it not involved?

David Tydeman: You are better addressing that question to CMAL. CMAL representatives were on site watching the build during the Ferguson Marine Engineering Ltd time. As you are aware, I seconded one of CMAL's senior people into my team in the first month of arriving as a means of getting the two of us aligned and of sharing the knowledge on both sides of the table.

The Convener: Not only were CMAL representatives on site, but its headquarters are less than 600m away, so it was only a brisk walk away, surely, if an issue was identified.

David Tydeman: Indeed.

The Convener: My final question is on the learning experience from watching ferries being built across the world using stage payments—about five payments seems to be the industry norm. Have we learned from the experience that having 18 stage payments on each ferry is perhaps not the way forward?

David Tydeman: I cannot comment on that, because it relates to the FMEL period. Since administration, we have been on a reimbursable monthly contract.

The Convener: Okay, but if you were to tender for a new job, would you look for 18 stage payments and would you expect a client to accept that?

David Tydeman: I think that I would expect a client to ask for fewer stage payments.

The Convener: Would it be five, like everyone else in the world?

David Tydeman: Five to 10 is my experience in other projects.

The Convener: Plumping for 15 and then asking for an additional three might not work.

David Tydeman: I cannot comment.

The Convener: Thank you very much for attending.

I will briefly pause the meeting. I ask members to be back at 11:25 so that we can complete the next bit in public and then go into private.

11:16

Meeting suspended.

11:25

On resuming—

United Kingdom Subordinate Legislation

Biocidal Products (Health and Safety) (Amendment and Transitional Provision etc) Regulations 2024

Retained EU Law (Revocation and Reform) Act 2023 (Revocation) Regulations 2024

The Convener: Our next item of business is consideration of two type 1 consent notifications. These are two instances of the UK Government seeking the Scottish Government's consent to legislate in an area of devolved competence. The Parliament was notified of the biocidal products proposal on 24 January and the retained European Union law proposal on 30 January. In both cases, the Scottish Government has indicated that it proposes to consent to the instruments being made in the manner that the UK Government has indicated. The committee's role is to decide whether it agrees with the Scottish Government.

If members are content for consent to be given for the UK statutory instruments being made in the manner proposed by the UK Government, the committee will write to the Scottish Government accordingly. In writing to the Scottish Government on both UK SIs, we have the option to pose questions, highlight issues or ask to be kept up to date on the relevant developments. If the committee is not content with the proposals, however, it may make one of the recommendations that are outlined in the respective notes from the clerks on the instruments.

Do members have any views, first, on the biocidal products UK SI?

Sarah Boyack: I thank the clerks for the papers that they have sent us, which are useful in taking us through the proposals. I say at the outset that I do not have any objections, but I have one or two questions about the extent to which stakeholders can be consulted. The notification states that the instrument is

"not expected to have any significant impact on stakeholders".

It is good to see the Scottish and UK Governments agreeing. The instruments that are to be revoked are seen as entirely obsolete.

However, I would like more feedback about what monitoring will be done. Some of the statutory instruments that are to be revoked are more than 20 years old, but others are a lot more recent. How will the situation be monitored? The benefit will clearly be a reduced need for animal testing, but I would like more monitoring of the impact of the statutory instrument. It is quite unusual, in terms of parliamentary accountability, to not have feedback from stakeholders, so there is a gap. I understand the logistics and that we need to get the measure through, because otherwise Scotland will miss out.

Those are my comments, having read the background papers.

The Convener: Unless other members have comments, I will move to a substantive question. Is the committee content that the provision that is set out in the notification should be made in the proposed UK statutory instrument on biocidal products?

Members *indicated agreement.*

The Convener: We will write to the Scottish Government to notify it of that. In that letter, we will ask the Government what monitoring will be carried out of the effect of the SI, not only on the Government but on stakeholders.

Moving on, does anyone have any comments on the retained EU law UK SI?

Mark Ruskell: I am content to support the proposal, on the clear understanding that it does not result in any divergence between the UK and the EU, that the revocation of measures is purely technical in nature and that they are indeed now redundant, which is why they are included in the SI.

The Convener: Unless other members have comments, I will move to a substantive question. Is the committee content that the provisions that are set out in the notification should be made in the proposed UK statutory instrument on retained EU law?

Members *indicated agreement.*

The Convener: We will write to the Scottish Government to that effect, including with that a question asking it to clarify that there is no divergence, as per its legislation regarding the EU.

That concludes the public part of the meeting and we will move into private session.

11:30

Meeting continued in private until 11:53.

Correction

Gillian Martin has identified errors in her contribution and provided the following corrections.

The Minister for Energy, Just Transition and Fair Work (Gillian Martin):

At col 3, paragraph 6—

Original text—

There is concern that, if we do not make the exemption for energy intensive industries, particularly in the high fuel price situation that we have at the moment

Corrected text—

There is concern that, if we do not make the exemption for energy intensive industries, particularly in the high electricity price situation that we have at the moment

At col 4, paragraph 1—

Original text—

That will amount to quite a substantial sum if you think about the huge amount of fuel that is used by those particular industries.

Corrected text—

That will amount to quite a substantial sum if you think about the huge amount of electricity that is used by those particular industries.

At col 5, paragraph 1—

Original text—

but this particular exemption is about large manufacturers that are particularly affected by inflation and high fuel costs

Corrected text—

but this particular exemption is about large manufacturers that are particularly affected by inflation and high electricity costs

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