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**From:** Nicholls J (John) (TRANS [Redacted])

**Sent:** 02 March 2017 13:18

**To:** [Redacted] zzzMinister for Transport and the Islands [Redacted] zzzCabinet Secretary for Economy, Jobs and Fair Work <[Redacted]> Cabinet Secretary for Finance, Economy and Fair Work [Redacted]

**Cc:** Cabinet Secretary for the Rural Economy <[Redacted]> DG Economy [Redacted] DG Scottish Exchequer Mailbox [Redacted] Brannen R (Roy) <[Redacted]>; Transport Scotland Secretariat <[Redacted]>; Director of Financial Management [Redacted]>; Transport Scotland Directors [Redacted] Rollison R (Richard) [Redacted]>; McAllan M (Mary) Lloyd E (Elizabeth) McFarlane J (John) <Higgins K (Kate)>

**Subject:** RE: Jim McColl meeting with Keith Brown and Humza Yousaf 2 March 2018 final

PS/Ministers (an action for PS/Mr Yousaf below)

This is to record the main points of this morning's meeting insofar as they related to ferries.

#### Contract 801/802 : contract status

- Mr Yousaf asked about CMAL's assessment that delivery could be 6-7 months late. Mr McColl said he was "astounded" by that assessment and assured Ministers that he had great confidence that the first vessel would be launched on schedule in August this year and delivered in May 2018 as per the contract. He accepted that the 75% fabrication milestone would slip (April 2017) but that FMEL would regain lost time. There was a lot of activity ongoing at the yard which was not visible to CMAL. FMEL had engaged a new project manager and was setting up a "war room" to drive the project, and he expected to be able to provide CMAL with assurance on timescales in a fortnight's time.
- It was noted that the build quality so far was good, and that CMAL and FMEL had established a good working relationship. Noting the novel nature of the build, Mr McColl indicated that he understood that it had sometimes taken CMAL a while to answer technical queries from the yard, and that that may have impacted on current slippages to milestones.
- Mr Brown noted the need to expand the narrative around FMEL in public communications – 350 jobs, shipbuilding renaissance on the Clyde, leading edge technology etc.
- **Action:** Mr Yousaf to meet with CMAL in a fortnight for an update on progress. PS/Mr Yousaf to take forward please.

#### Contract 801/802: funding profile

- Mr McColl tabled the attached paper setting out the FMEL position on cashflow. A substantial amount of cash remained tied up in the Surety Bond, and was thus not available to CBC/FMEL to invest in other projects. Mr McColl requested that SG should underwrite the refund guarantee and that

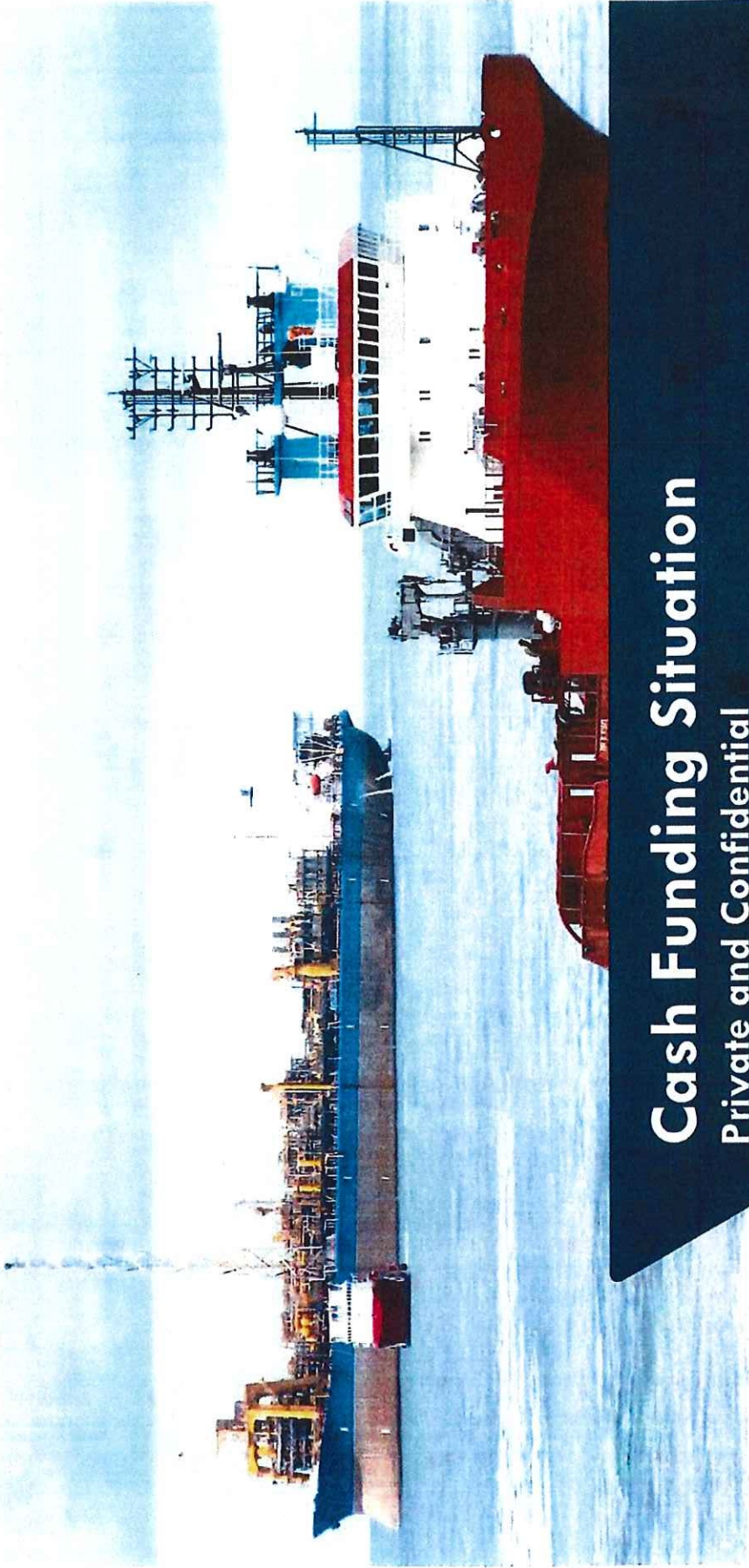
CMAL reduce the £25m retention amount to 10% of contract value. Mr McColl further asked that CMAL's stage payments be re-profiled to assist with cashflow.

- Mr Mackay indicated that he would, as a matter of urgency, consider this further on advice from transport and finance officials and CMAL. Whilst noting that proper account would need to be taken of the likely risks, he wanted to be as helpful as possible. He asked for advice from officials, to include impacts on CMAL cashflow **Action:** TS Ferries colleagues to pursue with CMAL and TS/SG Finance.

#### Wider ferry market

- Mr McColl indicated that he was considering how fleet renewal for Orkney and Shetland internal ferries might be pursued by FMEL. This could involve FMEL financing the build of new vessels and OIC/SIC leasing them. Mr Mackay set out the current position in relation to funding for internal ferries, and noted that this was an issue which might merit further discussion with Mr McColl.

John



# Cash Funding Situation

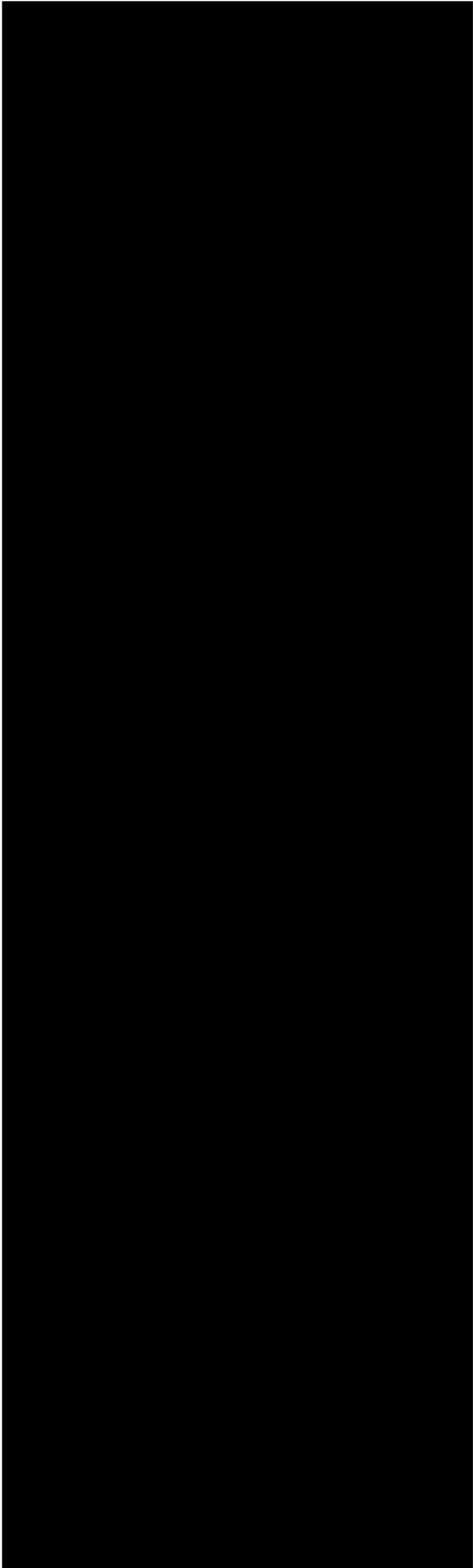
Private and Confidential

2 March 2017



# Cash Forecast to Dec 2018

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- Cash flow forecast above assumes current CMAL 801/802 payment milestones



- Cumulative Dec '18 cash position includes

[redacted] time of rescue but required during period to Dec '18 to re-establish capability and skills

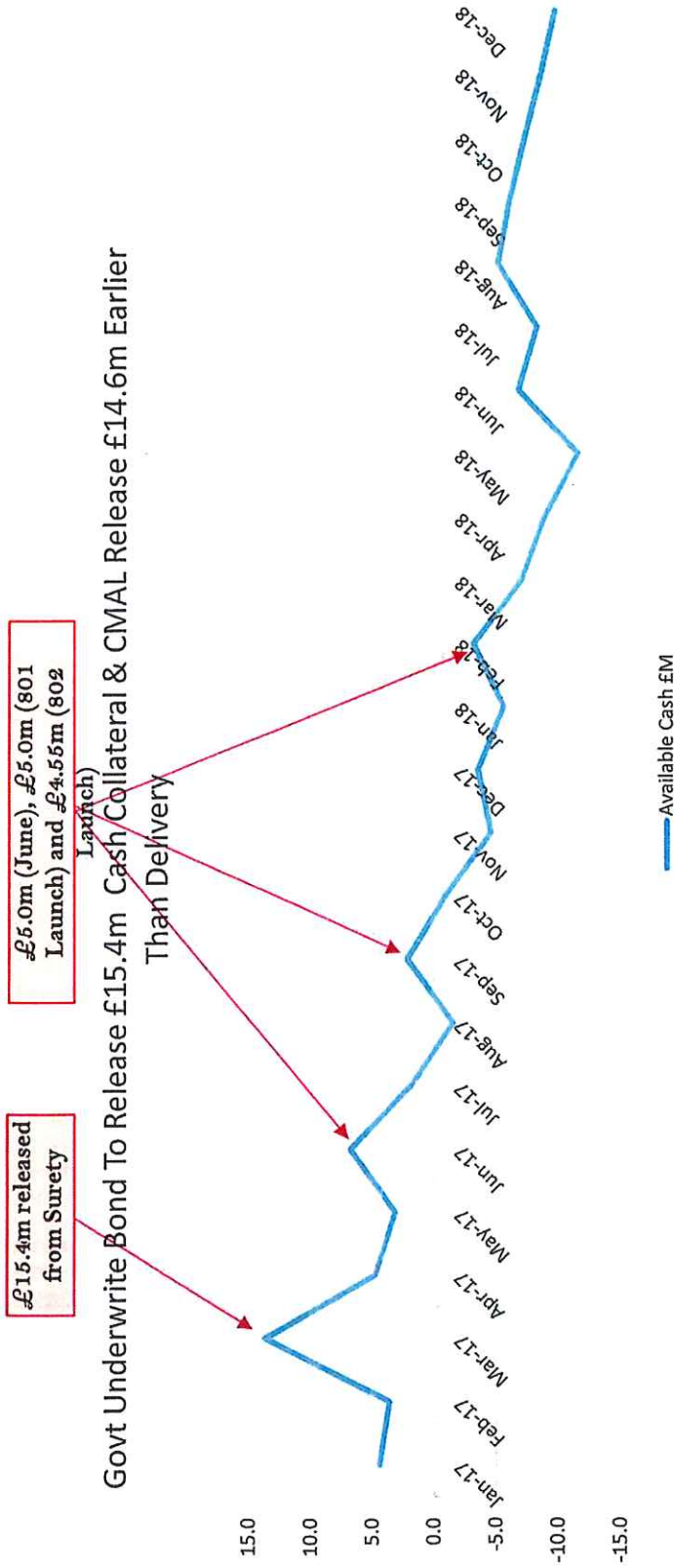
[redacted] These amounts are well above the plan at the

- Cash losses expected in 2018 as no ship orders means low activity post 801/802 delivery. Partnership approach by CMAL or release of well overdue Orkney/Shetland replacement fleet programme would be a “win-win” situation for all parties





# Support on (a) Refund Guarantee & (b) amendment to CMAL final retention



- Alternative cash forecast above assumes (a) Scottish Government under-write the £25m CMAL Refund Guarantee and (b) CMAL reduce final retention payment to 10% (£4.85m) per vessel.
- This would release immediately £15.4m of cash currently in escrow to the business and also free up the yard assets for potential 3<sup>rd</sup> party funding sources.
- Reduction of final retention payment on the 801/802 CMAL contract to 10% (£4.85m per vessel) allows £7.275m per vessel / £14.55m in total to be re-phased into the period June 17-Jan '18.

# Support on (a) Refund Guarantee & (b) amendment to CMAL final retention

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- CMAL are willing to move some smaller interim payments but at the moment are not in a position to offer a step change to the final delivery payment (25% retention). The very high 25% final delivery instalment of £12.125m per ship is a significant funding shortfall. We understand that the view of CMAL is a large final payment is needed to protect CMAL and incentivise FME but a lower value (say 10%) would still equate to a material £4.85m per ship final payment and would not be uncommon within shipbuilding contracts. Within the context of FME full funding requirements, a £4.85m final payment would be incentive enough to deliver on their promise to deliver on time and also recognises the diminished financial risk to CMAL given they have title to the vessel and equipment during the programme

