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SC638534

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Ferguson Marine (Port Glasgow) Holdings Limited

Annual Report and Financial Statements

31 March 2022

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Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Annual Report and Financial Statements****Contents**

	Page
Board Chair and Accountable Officer Foreword	1-2
Performance Report	
Performance Overview	3-5
Performance Analysis	5-6
Additional Disclosures for Companies Act	6-7
Accountability Report	
Governance Report	8-11
Remuneration and Staff Report	12-17
Independent auditor's report to the members of Ferguson Marine (Port Glasgow) Holdings Limited, the Auditor General for Scotland and the Scottish Parliament	18-21
Consolidated Statement of Comprehensive Income	22
Consolidated Statement of Financial Position	23
Consolidated Statement of Changes in Taxpayer's Equity	24
Consolidated Statement of Cash Flows	25
Company Financial Statements	26
Notes to the Financial Statements	27-48

Ferguson Marine (Port Glasgow) Holdings Limited

SC638534

Annual Report and Financial Statements

Board Chair and Accountable Officer Foreword

Background

Ferguson Marine (Port Glasgow) Holdings Ltd was created in August 2019 and has three wholly owned subsidiaries, one of which, Ferguson Marine (Port Glasgow) Limited ("FMPG"), took management control of the shipyard on behalf of the Administrators on 16th August 2019. The yard passed into full FMPG ownership on 2nd December 2019. Ferguson Marine (Port Glasgow) Holdings Ltd is wholly owned by Scottish Ministers.

At the time of taking whole ownership of the business in 2019, the Scottish Government set three objectives for the turnaround of the yard. These were to stabilise the situation; to deliver the five vessels on order at the time, notably the two dual fuel ferries on contract at the time to CMAL; and to deliver a sustainable future for the shipyard.

Having delivered Hull No 805, named as Kallista Helen, to Inverlussa in June 2021, the focus thereafter throughout 2021/2022 has been on progressing the build of the two ferries for Scottish Ministers, and laying the groundwork for the improvement of the Yard's performance in order to support the development of a viable future strategy for the Yard capable of ensuring its future.

Governance

A Non-Executive Chairman and Directors were appointed in June 2020, creating an independent Board, and since then the business has operated with two Executive Directors, a Non-Executive Chairman and five Non-Executive Directors. Their details can be found later in this report and also on the company's website.

COVID-19

During the year to 31 March 2022, the global pandemic continued to have an impact on FMPG, as it did on many other Scottish businesses. The impact upon FMPG was to a lesser extent than had been seen in the years of 2020 and 2021, given that there had been no lockdowns during the year to 31 March 2022, unlike 2020 and 2021. The costs relating to the impact of COVID-19 in the year to 31 March 2022 are £0.5m (2020/21: £3.9m), and these are reported as part of the Administration Expenses in the Statement of Comprehensive Income. Throughout the pandemic Ferguson Marine management and trade unions have worked closely together to develop working practices which give good protection to our workers whilst in the shipyard, thereby allowing progress on construction of the vessels.

Progress

A new CEO was appointed 1st February 2022 taking over from the Turnaround Director. Just prior to the year end in March 2022, the board agreed a revised programme for both vessels, deferring delivery by 8 months and increasing the budget by £8.7m. The CEO secured a secondment agreement with CMAL for one of their senior managers (who had previously been Operations Director at Ferguson around 10 years ago) to replace the interim programme manager at Ferguson Marine, effective 16 March 2022.

Between April and September 2022, the CEO led a complete review of the programme for both vessels, concluding that the budget for both vessels needed to increase significantly, and the delivery dates adjusted.

Schedule & Cost for 801 and 802

The revised forecast cost to complete the vessels is in the range of £197.4m to £209.6m, including a provision for warranty costs of £7m, and including £3.6m costs between late 2019 and prior to the start of FMPG's new contracts for the two vessels in April 2020.

The revised schedule for the ferries is:

- The delivery of 801 will be in the range April 2023 - May 2023.
- The delivery of 802 will be in the range December 2023 - March 2024.

Details can be found in the CEO's letter to the NZET Committee dated 28 September 2022 on the company's website.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Annual Report and Financial Statements****Board Chair and Accountable Officer Foreword (continued)****Future Work**

We have assessed the market that is available to Ferguson and concluded that the business can compete effectively for complex vessels, built to high standards, in the 40m to 110m range. The upper end of this range is limited by the size of the shipyard, with the lower end a guideline intended to exclude the smallest vessels. While under Government ownership Ferguson Marine has completed two vessels for the Scottish aquaculture industry, both below 30m and built to the workboat construction codes. Future work can come from the following sectors:

- Complex Commercial & Government Vessels
 - Ferries
 - Service Operations Vessels (SOVs)
 - Lighthouse Tender Vessels
 - Research Vessels
- Complex Patrol Vessels
 - Fishery Protection Vessels
 - Coastal Patrol Vessels
 - Offshore Patrol Vessels (OPVs)

There is market activity in each of these sectors and we are actively pursuing the opportunities that best fit Ferguson Marine's capability.

The new CEO has identified that for the shipyard to improve its efficiency and to be competitive in the broader market, it must first secure a pipeline of repeatable work over several years. There are two opportunities in the market. One, the small vessel replacement programme (SVRP) with Transport Scotland/CMAL for 7 x 50m electric motor-powered, modern versions of the 3 x 42m hybrid vessels Ferguson Marine built successfully, on-time and on-budget in 2012-2015, and secondly, Ferguson Marine has capacity and skills to support the warship programme with BAE and Babcock as a strategic sub-contractor and is actively developing this work.

Securing these two pipelines of work is recognised by the Board of Directors as strategically important for Ferguson Marine, prior to any other consideration of more complex, larger vessels in the future.

Outlook

The Directors and employees are keenly aware of the importance of the lifeline services which will be provided by the ferries when they are delivered, and the urgent need for their completion. This task, alongside the need to secure the future of the business by winning new work, remains our central priority and we remain confident of good progress on both fronts in the coming year. The Directors have considered, where possible, the potential impact on the Company of further cost inflation given the current macro environment, energy costs, labour market pressures, and challenges around global supply chain post the Russian invasion of Ukraine. It is not possible to identify and quantify the impact of all related uncertainties and implications, but appropriate allowances for the effect of inflation have been included in current cost forecasts.

David Tydeman

David Tydeman
Accountable Officer

Ferguson Marine (Port Glasgow) Holdings Limited

SC638534

Annual Report and Financial Statements

Performance Report

Performance Overview

The purpose of this overview section is to provide a summary of Ferguson Marine, its purpose and strategy, the key risks the business is facing, and performance over the year from 1 April 2021 to 31 March 2022.

Purpose and Business Activities

The principal activity of the business is shipbuilding.

Upon taking ownership of the company in late 2019, Scottish Ministers identified three key priorities for Ferguson Marine:

- i. To complete the five vessels currently under construction at the time, including the two ferries for CMAL (Hulls 801 and 802), and the two workboats for Inverlussa for use in the aquaculture sector;
- ii. To secure the workforce and skills; and
- iii. To secure a viable future for the business.

The shipyard plays an important role in both the local and national economy, providing direct employment of approximately 400 employees working across two sites, with the main site being the shipyard in Port Glasgow, together with a warehouse facility within a few miles of the shipyard at Greenock.

Company Structure

Ferguson Marine (Port Glasgow) Holdings Limited is the holding company and holds 100% of the share capital for each of three subsidiary companies, being Ferguson Marine (Port Glasgow) Limited, Ferguson Marine (801-802) Limited, and Ferguson Marine (803-805) Limited.

Ferguson Marine (Port Glasgow) Holdings Limited is itself 100% owned by Scottish Ministers, and in relation to that is classified as a Non-Departmental Public Body ("NDPB"). As a result, and in accordance with the Scottish Public Finance Manual ("SPFM"), each of its three subsidiary companies are also deemed to form part of that NDPB status organisation.

Under the terms of a Sale and Purchase Agreement dated 2 December 2019, the newly formed company of Ferguson Marine (Port Glasgow) Limited acquired certain assets of Ferguson Marine Engineering Limited (in Administration), with Ferguson Marine Engineering Limited itself having entered administration in August 2019.

Ferguson Marine (Port Glasgow) Limited owns the assets and property of the shipyard, and employs the workforce, whilst the other two subsidiaries are the operating entities wherein the contracting and trading with customers is transacted.

The Board is responsible for ensuring that the aims and objectives of the business are achieved, and several non-executives who were appointed to the Board by Scottish Ministers in June 2020, were re-appointed in December 2021 for a further term of office.

The Senior Management Team have delegated day to day authority within the Delegated Authority Framework to execute tasks, decisions and actions which enable the performance of the business to be achieved. The team is comprised of a CEO, supported by a number of senior heads of functional departments, who are responsible amongst other duties, for the planning, business management, performance management and change management across the business.

Strategy

The UK's National Shipbuilding Strategy Refresh (NSSR) which was issued in early 2022, aligned with a renewed governmental interest in shipbuilding, is likely to increase the opportunities in the domestic UK marketplace for ship construction. The NSSR identifies c170 vessels over the next 30 years to be funded in some form or other by the taxpayer and sets out a strategic intent to maximise the UK build element of this significant pipeline of work, with c40 of these vessels funded by the Scottish Government playing a significant role in that strategy.

In addition, the commercial shipbuilding market is vast, and opportunities for future vessel build are available in emergent and growing market sectors such as renewable energy. Independent reports identify a global need for more than 200 new vessels by 2030 for the offshore wind market, with c50% of these required to support wind farms in Northwest Europe. Ferguson Marine is well positioned to target this market.

Furthermore, the recent first round of offshore wind leasing in Scottish waters by ScotWind has seen many of the successful bidders commit to place orders for their support vessels with Scottish Yards.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Annual Report and Financial Statements****Performance Report****Performance Overview (continued)****Strategy (continued)**

The company's strategy aims to capitalise on its capacity, strengths, and capabilities as shipbuilders, focusing on sufficiently complex opportunities in niche or growth markets where fewer competitors are likely to have an advantage in terms of pricing or track record.

In order to succeed with that strategy, it is vital that the yard has a robust plan to improve its competitiveness for the sustainable future to be realised, and so in parallel to the business turnaround activities which have continued to be accomplished throughout the period, the company has also undertaken a benchmark review of its productivity and use of technology. The outputs from that review will be used to inform the creation and progression of a development plan in the forthcoming year to address the key areas.

Performance Appraisal

The period has seen continued disruption to operations within the shipyard caused by the effects of the COVID-19 pandemic, as we have adopted and adhered rigorously to government guidelines, protecting staff health and welfare. In that sense, we have been successful in ensuring that the number of COVID-19 transmissions within the shipyard within the reporting period have been kept to a minimal level.

The financial statements for the reporting period reflect a Net Surplus of £0.1m (previous period reported a profit of £82.2m). The Net Deficit is predominantly due to the effect of COVID-19 costs in the reporting period, with the Net profit in the prior year having been due to the release of the contract loss provision for Hulls 801 and 802 of £90.7m which had been held in the Balance Sheet at March 2020, but was no longer required from 1 April 2020 following the new build contracts having been put in place with Scottish Ministers, given that those contracts contain pricing that fully cover the projected costs to completion. Performance in the previous reporting period prior to the release of the contract loss provision was a net deficit of £7.2m, nearly £4m of which was directly related to the cost impact of COVID-19.

Key Issues and Risks

During the reporting period of April 2021 to March 2022, Scotland continued to face one of the most significant public health issues in recent times, with businesses dealing with the effects of the COVID-19 pandemic across the country.

Disruption persisted in Ferguson Marine as a result of COVID-19, due to the increase in infection cases contracted out-with the yard in the community, impacting employee absence rates as a result of both infection and self-isolation.

Management of the COVID-19 risk has been successful with a limited number of in-house transmissions of infection during the period, and we constantly re-assess the protocols in place and revise where appropriate.

In addition to the effect of the COVID-19 pandemic, there has been persistent difficulty in being able to recruit the necessary trades and skills required to meet the requirements of the project plan, due to shortages of key skilled labour resources in the marketplace. The effect of this has been mitigated by placing discrete packages of work with subcontractors, and the increased use of agency and contract workers.

Going Concern

Since formation of the company in late 2019, the business has been owned 100% by Scottish Ministers. The Board of Directors are registered with Companies House, as Company Directors, as the group is registered as a limited Company.

The Board of Directors have considered the Group's ability to continue as a going concern, with that assessment having considered the current capital position of the group, the operational and funding mechanism extant within the two contracts put in place with Scottish Ministers for the construction of the two ferry vessels (Hulls 801 and 802), the related project outlook and cost profile for those vessel builds over the next two years, and the opportunities for future new work and contract opportunities (Ferguson Marine (Commercial) Limited).

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Annual Report and Financial Statements****Performance Report****Performance Overview (continued)****Going Concern (continued)**

In respect of Hulls 801 and 802, the contract with Scottish Government (Customer) is a cost to completion contract. Scottish Government provide monthly funding in arrears to cover the costs of completing 801 and 802. Where there is a change to the delivery timescale, Ferguson Marine (801-802) Limited are required under the contract to notify Scottish Government. Funding has been provided within the Scottish Government budget for 2022/23 and 2023/24. The costs of 801 and 802 continue to be reviewed, alongside the delivery timeline and may be subject to additional cost and overrun. The current budget allocation does not yet cover the full cost anticipated as of January 2023.

Scottish Government have commissioned due-diligence work on behalf of Scottish Ministers in considering revised budgets for Hulls 801 and 802. This, alongside wider due diligence, creates an uncertainty over Scottish Ministers future commitment to fully fund the two vessels through to completion.

In respect of Ferguson Marine (Commercial) Limited, there are also risks and uncertainties over the future operation of this subsidiary within the Group. Currently an agreement with BAE is in place, although this is of limited scale. There is not yet clarity over the future investment by Scottish Ministers, beyond Hulls 801 and 802, which would allow additional investment in the yard, enabling the yard to competitively compete for and win new work. Beyond the delivery of Hulls 801 and 802, at this point in time, the Group have no further contracts to deliver. Without certainty over future funding, the ability for the Group to be competitive in future contracts may be affected, including the small vessels replacement programme planned by CMAL on behalf of Transport Scotland. An ongoing due diligence review, which is not yet concluded, into the future direction of Ferguson Marine creates a risk and uncertainty over future activity, and whether activity and contracted income will be in place to meet all liabilities as they fall due.

Therefore, the Board of Directors has identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The Board of Directors anticipate Scottish Ministers clarifying the uncertainty within the first half of 2023.

Performance Analysis

In terms of operations and construction within the yard, despite the impact of COVID-19, progress on the construction of all the vessels was made during the reporting period, although not the level of progress that had been expected on Hulls 801 and 802 due to further legacy and technical issues.

There was successful completion of Hull 805, the 26m workboat for Inverlussa in the reporting period, which was delivered to the customer in May 2021.

Key Performance Indicators are summarised as follows:

- The project costs incurred on Hulls 801 and 802 during the year to March 2022 was £54.1m
- Contract loss provision in the Balance Sheet of £1.18m for Hull 805 was utilised in the reporting period as costs were incurred to achieve delivery
- Cost impact of COVID-19 in terms of non-productive costs and lost time was £0.5m, much lower than previous year
- ISO9001 certification surveillance review and audit undertaken by Lloyd's Register Quality Assurance ("LRQA") in October 2021, with a positive outcome, and encouraging feedback and comments made on the progress achieved on process and controls
- The shipyard has been subject of two insurance-based risk and site surveys, which raised no significant issues, and commented positively on improvements visible from the previous survey of 12 -18 months ago. Health & Safety Executive also visited the site over the last few months, and also raised no major issues

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Annual Report and Financial Statements****Performance Report****Risks**

In carrying out its business operations and construction of the vessels, the company assumes a certain level of risk related to executing the obligations of those projects. The business has developed both a Corporate Risk Register, and a Project Risk Register, setting out the top risks, with both reports reviewed regularly.

Principal risks include the management and control of performance on the contracts to build the two ferry vessels for Scottish Ministers. Improved project management is being applied to ensure that the delivery dates within the contract terms are met, and that labour and material costs are effectively managed during the project.

COVID-19 has had a smaller impact within the reporting period than previous year, which had included the effect of the national lockdown during 2020 together with subsequent rigorous compliance with the related safety guidelines such as social distancing, as issued by government. The impacts of COVID-19 continue to be risk assessed and monitored by the directors.

Non-Financial Information

The company recognises its importance to the local community, not just in terms of employment of skilled labour, but also its heritage and social responsibility. We have worked in the local community to increase awareness of science, technology, engineering, and mathematics ("STEM"), and also supported a number of recruitment fairs.

We also have a good relationship with the local college in Greenock, which is a key foundation of the apprentice program which the business restarted in 2020, was continued in the year of 2021, and has been further developed in 2022, which has provided a career opportunity to a further 15 young people, with a pathway to train and become a skilled tradesperson.

We also proactively engage and communicate with all stakeholders about progress and development of the yard, including end users of the ferries from the island community.

We apply the principles of equality and diversity across the business, and one element of this is illustrated by the composition of the senior management team, of which 40% of key senior roles are held by women.

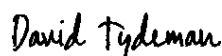
Additional disclosure requirements within the Companies Act

Ferguson Marine (Port Glasgow) Holdings Limited, which although wholly owned by Scottish Ministers, is registered as a Limited Company with Companies House, and the three wholly owned subsidiaries are also registered with Companies House. In our interpretation of the FReM, we note that if additional reporting requirements are required under the Companies Act in addition to FReM, that these are also required to be disclosed. Typically, the reporting disclosures required by the Companies Act would be contained within the Strategic Report. Under FReM guidelines, many of these disclosures fall into this Performance Report or the Governance Report which follows on pages 8 - 11. To assist the reader of this Annual Report and Accounts, the key additional disclosures required by the Companies Act are either set out below, or cross-referenced to where the disclosure requirement may already be included elsewhere in this Annual Report and Accounts:

- i. Future Developments – an indication of likely future developments in the business is set out within the Future Work section of the Chair and Accountable Officer Foreword (Page 2).
- ii. Dividends – No dividends have been proposed, recommended nor paid.
- iii. Financial Instruments – Note 19 to the Accounts (page 44) – risk management policies are set out within this note, as are the price, credit and liquidity risk assessments and policies. The Directors have assessed that the risks are not material.
- iv. Post Balance Sheet events – there have been no important events affecting the company since the year end of 31 March 2022.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Annual Report and Financial Statements****Additional disclosure requirements within the Companies Act (continued)**

- v. **Employees - Equality & Diversity** - Ferguson Marine is dedicated to encouraging a supportive and inclusive culture. It is within our best interest to promote diversity and eliminate discrimination in the workplace. Our employees are fundamental to our success. We recognise that to provide the best service we need to not only employ diverse teams from the broadest talent pool, but ensure everyone is celebrated and respected as individuals; to create an inclusive culture where our employees thrive, foster creativity and drive engagement. We take every possible step to ensure that our employees are always treated fairly and equally and that all decisions on recruitment, training, and promotion are based solely on objective, job-related, criteria. This approach applies equally to dealings with our employees, clients, customers, suppliers and contractors. We support the principle of equal opportunities in employment and opposes all forms of unlawful or unfair discrimination on the grounds of race (which includes colour, nationality, ethnic or national origin and caste), sex, age, marital or civil partnership status, religion or belief, political opinion, disability, gender re-assignment, sexual orientation, pregnancy or maternity or trade union membership. We are opposed to all forms of unlawful and unfair discrimination. All employees, no matter whether they are part-time, full-time, or temporary, will be treated fairly and with respect. When selecting candidates for employment, promotion, training, or any other benefit, it will be based on their aptitude and ability.
- vi. **Employees – business engagement** with employees is based upon a number of regular events and actions during any reporting period. These include communication and briefing sessions to all employees presented by the CEO, email-based newsletter/updates when appropriate from the CEO, monthly meetings of the senior leadership team with management, and weekly walk around the shipyard on an informal basis. There is also fortnightly engagement with the local trade union representatives, in addition to which, they are provided the opportunity to attend the Board meetings which are held, in which they can raise any issues on behalf of the employees on a formal basis. All employees are also encouraged to use the "ask the CEO" mailbox which is established and available for all employees to raise and issue or question directly with the CEO, as well as a 'You say, We did' process, primarily to raise aspects around Health and Safety.
- vii. **Stakeholder engagement** – the main stakeholder and customer of the business are Scottish Ministers. In the same way as other public bodies, we have set out a Framework Agreement that sets out the terms in how the relationship and engagement between the business and Scottish Ministers will work. Additionally, there is regular contact and provision of information, with Scottish Government providing attendees to each Board meeting as observers, and so be updated formally. For suppliers, we have a code of conduct in place, that sets out to foster good practice and strong relationships.
- viii. **Information provided to the auditors** – the Directors confirm that so far as they are aware, there is no relevant audit information of which the company's auditors are unaware; and that they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any such information.
- ix. **The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018** (the Regulations), require certain companies to participate in Streamlined Energy and Carbon Reporting (SECR). Ferguson Marine (Port Glasgow) Holdings Limited is exempt from SECR disclosure on the basis that no members of the Group are considered to be large, and also as the parent company has consumed less than 40,000kwh in the period.



David Tydeman
Accountable Officer

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Governance Report****Directors Report**

The Board is responsible for the overall direction of the business, including its efficiency and performance.

The full Board comprises of two Executive and six Non-Executive members appointed by Scottish Ministers. The members bring a wealth of diverse and extensive experience to the business.

They work closely with the senior management team, who are responsible for strategic planning, business management, performance and change management, enabling the company to not only meet its existing contractual obligations, but also deliver a sustainable future for commercial shipbuilding on the lower Clyde.

A short biography can be found for each of the directors on the Ferguson Marine website.

Auditors

The accounts are required to be audited in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, and Scottish Ministers have issued an accounts direction letter to Ferguson Marine (Port Glasgow) Holdings Limited, stating that the accounts for the financial period ended 31 March 2021, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.

Under the terms of the Public Finance and Accountability (Scotland) Act 2000, our independent auditors are appointed for the Auditor General by Audit Scotland, and Audit Scotland have appointed Grant Thornton UK LLP as our independent auditors for the reporting period 2021-22.

The accounts have been prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

The Company has three subsidiary companies, of which it owns 100% of the share capital of each subsidiary. The details of those subsidiary companies are set out in Note 27 to the Financial Statements. For each of the three subsidiary companies, as listed below, the Board of Directors have resolved to seek exemption from audit by parent guarantee under s479A-479C of the Companies Act 2006.

Ferguson Marine (Port Glasgow) Limited
Ferguson Marine (801-802) Limited
Ferguson Marine (Commercial) Limited

Company Registration No SC638457
Company Registration No SC638508
Company Registration No SC638592

Other Information

In the year to 31 March 2022, we did not submit any notifications of data breaches to the Information Commissioners Office.

Subsequent to the end of the reporting period for this Annual Report and Financial Statements, the company registered as SC638592, amended its name by resolution to Ferguson Marine (Commercial) Limited, and recorded that at Companies House, in November 2022.

Auditors

Grant Thornton UK LLP
Level 8
110 Queen Street
GLASGOW
G1 3BX

Bankers

Royal Bank of Scotland plc
36 St Andrew Square
EDINBURGH
EH2 2AD

Legal Advisors

MacRoberts LLP
60 York Street
GLASGOW
G2 8JX

Tax Advisors

PricewaterhouseCoopers LLP
141 Bothwell Street
GLASGOW
G2 7EQ

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Governance Report (continued)****Statement of the Directors' and Accountable Officer Responsibilities****Statement of Directors' Responsibilities - Directors Duties under S172**

The board of directors have collectively and individually promoted the company's success for its shareholder during the period ending 31st March 2022. Working together, we continue to develop our strategy and processes to deliver a sustainable business model which will secure the long-term position of the company as a strategic asset for the shareholder as a key piece of infrastructure to deliver benefit for the Inverclyde economy in both jobs and wealth creation. Our short-term strategy has been developed to focus on critical business objectives with a key measure of success being completing the delivery of vessels currently under construction, whilst creating viable shipyard for the future. The challenges of the COVID-19 pandemic have had an impact in the period to 31 March 2022, and the board of directors are determined to continue reshaping the business to be as resilient as it can be. During the year we continued to recognise the commitment and flexibility that our employees have shown through improving working practices and re-organisation. Our employee safety and well-being remain a key priority and we have implemented all COVID-19 government guidelines in respect of protective equipment and working practices. Relationships with suppliers are also key to securing continuity of operations and quality. The company remains respectful of the communities in which it operates, and we are in regular communication with local government and agencies responsible for the environment and infrastructure which we operate. The board of directors are committed to behaving responsibly and maintaining the reputation of the business through impeccable conduct and strong governance, sharing high quality information and conducting regular meetings.

Statement of Accountable Officer's Responsibilities

This statement has been prepared by me as Accountable Officer for Ferguson Marine (Port Glasgow) Holdings Limited, as required under the terms of the Scottish Public Finance Manual (SPFM).

The accounts provide a true and fair view of the performance of the business, and the financial statements and supporting notes can be found in full, from page 22 onwards.

The audited financial statements have been prepared in accordance with applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006, taking account of the requirements of the Government Financial Reporting Manual (FReM), and in particular the accounts meet the following key requirements:

- Comply with the accounts direction letter issued by Scottish Ministers, including relevant disclosure requirements
- Make judgements and estimates on a reasonable basis, and those that have been formed are described in the Notes to the Financial Statements
- State that the relevant standards set out in the Government Financial Reporting Manual (FReM) have been followed and complied with
- Prepare the accounts on a going concern basis
- Confirm that the accounts are fair and balanced, and that they are clear and logical

As the Accountable Officer, I have taken all steps necessary to make myself aware of any information relevant to the audit and have provided that information to the auditors.

Governance Statement

Ferguson Marine (Port Glasgow) Holdings Limited is a limited company under the Companies Act 2006, whose shares are wholly owned by Scottish Ministers, and is an executive Non-Departmental Public Body (NDPB) of the Scottish Government.

The Governance Statement has been prepared to form part of the Annual Report and Accounts, as required under the terms of the Finance Reporting Manual (FReM). The FReM is issued by Scottish Ministers to provide guidance on the correct handling and reporting of public funds, and includes the relevant statutory, parliamentary, and administrative requirements, with an emphasis on economy, efficiency, good practice and high standards of propriety.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Governance Report (continued)**

Compliance with regulation, legal and ethical standards is a high priority for the group, and the directors and senior management take on an important oversight role in this regard. The business is led by the Board of Directors, whose role it is to ensure that the business fulfils the aims and objectives set by the shareholders of Scottish Ministers.

The Board is responsible for:

- progress towards achievement of the strategic aims and objectives
- promoting the efficient and effective use of resources and employees
- ensuring that effective arrangements are in place to provide assurance on risk management and internal control
- approving the annual report and accounts and reviewing regular financial information in respect of the management and performance of the business
- demonstrating professionalism and high standards of governance

To assist in discharging its obligations, to monitor and review risk, control and corporate governance, the Board has formed an Audit and Risk Committee, to which it has appointed appropriately skilled and experienced members of the Board.

The Board has developed and formally approved the Terms of Reference for the Audit and Risk Committee and has appointed Robert Mackenzie as the Chair of that committee. In the reporting period of 1 April 2021 to 31 March 2022, there have been four Audit & Risk Committee meetings held.

The Audit and Risk Committee has refreshed and updated the work programme for 2022/23, to develop and enhance the risk management framework for the business, which will facilitate the progressive improvement in procedure, process, and internal controls. That risk management framework seeks to a) understand the threats, b) identify and prioritise the risks, c) identify actions and controls to mitigate the risks, and d) monitor the risk until reduced to an acceptable level.

In the reporting period to 31 March 2022 for which this statement relates to, there has been good progress in the areas which have been addressed as a priority, and these are summarised as follows:

1. Project Reporting

Monthly reporting of project performance has been developed during 2021/22, to highlight the key issues each month, across the spectrum of design, production, quality and health and safety. Project cost updates are also prepared, comparing actual costs vs planned cost, with tracking of the forecast cost at completion for each project. These reports are provided to both the Board and the Shareholders.

2. Budgeting and Financial Reporting

The information and cost forecasts that underpin the project cost forecasts are profiled in detail, enabling actual costs to be compared to plan on a monthly basis, allowing management to exercise effective control and direction of particular areas of cost as required. This includes a range of financial KPI's, and project performance metrics.

3. Procurement Process

The procurement procedure was developed and enhanced, and then rolled out across the business, ensuring commitments to suppliers and subcontractors were under more rigorous control. Within the procurement procedure, an improved requisition form and process was implemented, increasing the quality of the requests submitted to the procurement team, enabling better value and delivery to be achieved.

4. Health & Safety Management and Reporting

Ensuring that employees work in a safe place is a priority for the management team, and improvements have been made to a range of policy and procedures which have been implemented during the period to March 2021, including monthly reporting. A monthly report is submitted to the Board, which highlights statistics for the period, description of any key incidents and learnings, and updates on progressive new initiatives on health and safety.

5. Quality Management System - Ideagen Q-Pulse QMS

During the reporting period, the quality management system has been improved by the implementation and use of Q-Pulse software application across the business. This has reduced the administrative burden and enhanced the document management process, and also the management of audit non-conformances.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Governance Report (continued)****6. ISO9001**

A surveillance audit and review was undertaken in October 2021, which produced a positive outcome and approval to maintain our accreditation. The report commented that a number of significant changes and improvements had been implemented or were in advance planning stage during the period from the previous assessment in December 2020, and this was recognised as a significant achievement under the circumstances of the ongoing commitment of driving forward to complete and deliver the two existing ferry contracts along with efforts to acquire new orders to secure the future of the company.

7. JH143 Marine Insurance Site Survey

In accordance with the construction risk, we had a JH143 survey undertaken in September 2022, which is intended to provide underwriters with an understanding of the nature of the risk they are insuring, and the survey evaluates the effectiveness of production and safety systems across a range of area. The resulting output was a satisfactory grading, with a few recommendations to be addressed, which have either already been done or are underway. This was much improved from the previous survey of two years ago.

The Board, Audit and Risk Committee and senior management team are now applying focus to the following aspects over the next year:

1. Risk Register

A project risk register is maintained and reviewed regularly as part of the project review and reporting process and is focussed on the top 10 project risks. In addition, a Corporate Risk Register has also been developed and prepared, for review and agreement by the Audit & Risk Committee and the Board.

2. Requirement for Internal Audit

The requirement for an internal audit and the scope of what that would address has been under discussion at the Audit and Risk Committee, and the recommendations from that review to the Board have led to an exercise to outsource and procure an Internal Audit Service from a professional third party organisation. The engagement and transition for this support and functionality has now commenced.

3. Cyber Risk Management

The Board recognises the current and increasing threat of Cyber risk. In addition to internal review, we have commissioned an independent review of our IT network and infrastructure, and any vulnerabilities which may be identified will continue to be addressed as appropriate. Cyber Essentials accreditation has been renewed in the reporting period, with the certification process illustrating which areas have improved since the last annual renewal.

4. Training and Awareness

We have committed to the provision of an array of e-learning training courses that will be made available to employees. The courses cover range of subject matters, including corporate governance elements such as anti-bribery and cyber risks, health and safety, and HR elements such as equality and diversity, and employee well-being.

5. Functional Policies and Controls

A range of functional policies are being reviewed by the relevant member of the senior management team and will be progressively updated and refreshed where required.

Taking account of the status of the business when it commenced operations in December 2019, the effect of the COVID-19 pandemic, the work undertaken so far and the improvements which have been implemented, including certifications which have taken place, then reasonable assurance can be placed upon the adequacy and effectiveness of the business' governance arrangements. Health & Safety Executive also visited and surveyed the site in the last few months and found no major issues.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Remuneration and Staff Report****Remuneration Policy**

The Board, consisting of Chief Executive Officer, Executive Director and Non-Executive Directors, receive remuneration packages which are commensurate with their skills, experience, and market rates. The Scottish Government approves the daily fees to be paid to the Chair and Non-Executive Directors, as well as approving the remuneration package of the Chief Executive Officer.

The initial appointments of the non-executive members and the Chair were made during the reporting period of 2020-21, the appointment date being 10 June 2020. Reappointment of non-executive members was confirmed in December 2021. In May 2022, which is after the end of the reporting period for which these financial statements are prepared, there has been a change to the composition of the non-executive members.

There have been no major decisions taken on Directors' remuneration in the period since their appointment.

Non-Executive Director Remuneration

Non-Executive Directors are entitled to receive from Ferguson Marine a fee of £320 for every day committed to undertaking their functions, and in addition are reimbursed for their travel expenses.

The Chair is entitled to receive from Ferguson Marine a fee of £361 for every day committed to undertaking their function, with travel expenses also paid in addition to the daily rate.

Non-Executive Board members contribute at least four days per month in support of the activities and business of Ferguson Marine.

Non-Executive Directors do not receive any pension or other benefits.

Executive Director Remuneration

The Turnaround Director had been remunerated on the basis of a daily rate paid via his personal service company until leaving the business in February 2022, with the new Chief Executive Officer and executive directors receiving remuneration in the form of an annual salary.

Executive directors who are directly employed by Ferguson Marine (Port Glasgow) Limited and are remunerated in the form of an annual salary, are also provided with other benefits, which include Defined Contribution Pension, Death in Service, Private Medical Insurance, and Car Allowance.

Payments to Past Directors

There were no payments to former Directors in 2021/22.

Payments for Loss of Office

There were no payments to Directors for Loss of Office in 2021/22.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Remuneration and Staff Report (continued)**

The table provide details of the remuneration and pension benefits of the Board members:
[Subject to Audit]

Role/Name	Salary		Value of Pension Benefits		Value of Benefits in Kind		Incentive payments	
	£000s 2021/22	£000s 2020/21	£000s 2021/22	£000s 2020/21	£000s 2021/22	£000s 2020/21	£000s 2021/22	£000s 2020/21
Chairman								
Alistair Mackenzie	20<25	15<20	0	0	0	0	0	0
Turnaround Director								
Tim Hair *	660<665	660<665	0	0	0	0	0	0
CEO								
David Tydeman**	55<60	-	0	-	0	-	0	0
CFO								
George Crookston	120<125	95<100	5<7.5	5<7.5	0	0	15<20	0
Non-Executive Directors								
John Hudson	15<20	10<15	0	0	0	0	0	0
Alan Johnston	15<20	10<15	0	0	0	0	0	0
Stuart Smith	15<20	10<15	0	0	0	0	0	0
Alison Mitchell	15<20	10<15	0	0	0	0	0	0
Robert Mackenzie	15<20	10<15	0	0	0	0	0	0

*Tim Hair is a director of Melville Management Limited and provided his services to Ferguson Marine (Port Glasgow) Limited via this entity. The remuneration above includes base remuneration of £591,232 and expenses of £70,102 and excludes VAT fully recoverable by Ferguson Marine (Port Glasgow) Limited.

** David Tydeman joined the business in February 2022 and so the values relate to part year only.

Pension Benefits of Executive Directors

[Subject to Audit]

The business operates a defined contribution scheme with a reputable provider in the marketplace, with employer's contribution in 2021/22 being 6% of pensionable earnings. The value of employer contributions made are set out in the table above.

Employee Remuneration**Fair Pay**

Ferguson Marine is also committed to the Scottish Government's Fair Work Agreement, which seeks to embed Fair Work into local employment policy and practice, and all public bodies in Scotland are encouraged to work with their trade union partners to adopt the terms of the agreement.

The agreement promotes work and employment that offers:

- respect
- opportunity
- fulfilment
- security
- effective voice

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Remuneration and Staff Report (continued)****Fair Pay****[Subject to Audit]**

The median remuneration paid to Ferguson Marine staff, based on annualised full time equivalent remuneration of all staff as at 31 March 2022 was £28,367, an increase of 7% on the prior year (2020/21: £26,551).

The remuneration of the highest paid director was in the range of £660,000 - £665,000, a 0% increase on the prior year. (2020/21: £660,000 - £665,000).

The ratio between the median employee remuneration and the mid-point of the range of the remuneration of the highest paid director was 23.3 (2020/21: 24.9). The reduction in the ratio is due to the highest paid director's salary remaining constant, whilst employees were provided with a 2.85% salary increase in April 2021. Therefore, the movement in the ratio is consistent with the company's pay policy.

Year	25 th percentile pay ratio	Median pay ratio	75 th percentile pay ratio
2021/22	26.5	23.3	17.1
Year	25 th percentile total pay and benefits	Median total pay and benefits	75 th percentile total pay and benefits
2021/22	£25,765	£29,164	£40,026
Year	25 th percentile salary component	Median salary component	75 th percentile salary component
2021/22	£23,222	£26,551	£32,956

The range of staff remuneration is £10,000 - £665,000 (2020/21 £10,000 - £665,000).

Staff Report

The number of senior management staff employed by salary band is presented as follows:

Salary Band**Number of Staff**

	As at 31 March 2022	As at 31 March 2021
£200,000-£210,000	1*	-
£120,000-£130,000	1	1
£110,000-£120,000	2	1
£100,000-£110,000	2	3
£90,000-£100,000	-	-
£80,000-£90,000	1	-
£70,000-£80,000	1	1
£60,000-£70,000	-	1
£50,000-£60,000	-	1
Totals	8	8

Note: In some instances, the staff reported in this table were employed on an interim contract basis, and so the annual salary band in which the headcount has been reported relates only to the remuneration which they were paid in the respective reporting period.

*This includes the individual's FTE salary band although not employed throughout 2021/22.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Remuneration and Staff Report (continued)****Gender Analysis and Staff Composition**

An analysis of the number of persons of each sex employed by the company is set out in the table below:

Headcount as at	31 March 2022			31 March 2021		
	Total	Female	Male	Total	Female	Male
Board	8	1	7	8	1	7
Senior Management	5	3	2	6	2	4
Employees	382	24	358	368	18	350
Totals	395	28	367	382	21	361

Staff Costs

[Subject to Audit]

The table below sets out the staff costs for the year to 31 March 2022, together with the average headcount employed in the reporting period: -

	Permanent £000s	2021/22 Others £000s	Totals £000s
Wages & Salaries	11,319	5,870	17,189
Social Security/National Insurance Costs	1,129	210	1,339
Pension Costs	342	28	370
Apprenticeship Levy	51	-	51
Other Allowances	-	-	-
Sub-Totals	12,841	6,108	18,949
Life Insurance Scheme Costs	94	-	94
Private Medical Scheme Costs	14	-	14
Total Staff Costs	12,949	6,108	19,057
Average Number of Employees			
Operations	318	119	437
Administration	14	2	16
Totals	332	121	453

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Remuneration and Staff Report (continued)****Staff Costs (continued)**

The costs and headcount for the previous reporting period are set out below:

	Permanent £000s	2020/21 Others £000s	Totals £000s
Wages & Salaries	8,958	2,930	11,888
Social Security/National Insurance Costs	868	225	1,093
Pension Costs	297	23	320
Apprenticeship Levy	37	-	37
Other Allowances	-	-	-
Sub-Totals	10,160	3,178	13,338
Life Insurance Scheme Costs	28	-	28
Private Medical Scheme Costs	-	-	-
Total Staff Costs	10,188	3,178	13,366
Average Number of Employees			
Operations	285	63	348
Administration	7	4	11
Totals	292	67	359

Absence

The absence rate shows the amount of time lost through employee absence from work as a percentage of the total number of potential working days in the reporting period.

The absence rate for 2021/22 was 5.5% (2020/21: 4.1%)

Staff Turnover

The staff turnover rate is the measurement of the number of employees who leave the organisation during the reporting period. The ratio is calculated using the number of leavers in the reporting period compared to average headcount in the reporting period.

For the reporting year to 31 March 2022, the rate was 15% (2020/21: 11%).

Staff Policies

Ferguson Marine has a range of policies, procedures and guidance in place to promote and support equality, diversity, health and well-being in the workplace.

During the last year in particular, we have facilitated and enabled an increased level of remote working and working from home, as we have all had to adapt to the impacts of the COVID-19 pandemic.

The approach over the last 12 months has been very successful, and we are exploring the options for implementation of a flexible or hybrid working pattern on a sustained basis for the future.

We have been careful to take account of the requirement for a potentially increased level of welfare support as employees have worked from home, and to strengthen this, we have an Employee Assistance Program with the support of a specialist third party, which was rolled out with a range of training and awareness workshops for any employee with a managerial responsibility. This EAP service provides confidential and discrete support and counselling if required, on both work and non-work-related matters.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Accountability Report****Remuneration and Staff Report (continued)****Staff Costs (continued)**

In accordance with the Equality Act 2010, the company gives full and fair consideration to applications for employment by the company made by all candidates, including disabled persons, paying fair regard to their particular aptitudes and abilities.

Trade Union Disclosures

The company is required under the Trade Union (Facility Time Publication Requirements) Regulations 2017 to disclose certain information about facility time.

The company recognises and has a collective bargaining agreement with the GMB union, although not all employees are members, and so they do not represent the whole workforce. There are two employees who are relevant union officials during the reporting period to 31 March 2022 (2020/21: 2).

The two relevant union officials spent 5% of their working hours on union activity and business.

The percentage of total pay bill spent on union business was 0.2% (2020/21: 0.4%), and the percentage of time spent on total paid facility time hours was 0.2% (2020/21: 0.4%).

Exit Packages

[Subject to Audit]

Ferguson Marine does not maintain a policy of no compulsory redundancy, as it requires to retain the ability to be flexible in restructuring the skills mix in the business to match anticipated changes in the type of work which will be bid for and worked upon after the completion of Hulls 801 and 802. Although a public body in nature due to the shares being owned by Scottish Ministers, Ferguson Marine is not required to comply with public sector pay policy, as set out in the public sector pay policy documents on the Scottish Government website. There were no compulsory redundancies in 2021/22 (2020/21: None).

The following table shows the payments made to employees and the total costs of employees' exit packages:

	2021/22	2020/21
Number	2	0
Total Cost	£19,000	£0

David Tydeman

David Tydeman
Accountable Officer

22/2/2023

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Independent auditor's report to the members of Ferguson Marine (Port Glasgow) Holdings Limited, the Auditor General for Scotland and the Scottish Parliament****Reporting on the audit of the financial statements****Opinion on financial statements**

We have audited the financial statements in the annual report and accounts of Ferguson Marine Port Glasgow (Holdings) Limited for the year ended 31 March 2022 under the Companies Act 2006 (Scottish Public Sector Companies to be audited by the Auditor General for Scotland) order 2021. The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, Consolidated Statement of Cash Flow, Consolidated Statement of Changes in Taxpayers' equity, Company Financial Statements, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted, and adapted by the 2021/22 Government Financial Reporting Manual (the 2021/22 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Companies Act 2006 (Scottish Public Sector Companies to be audited by Auditor General for Scotland) order 2021 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2022 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 3 September 2021. The period of total uninterrupted appointment is two years. We are independent of the body in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty related to Going Concern

We draw attention to the going concern narrative on pages 4 and 5 in the financial statements, which highlights several risks and uncertainties over the future direction of the business, including the funding over the full costs in delivering two ferry vessels (Hull 801 and 802) over the next twelve months. Beyond the delivery of Hull 801 and 802, the body has no further contracts to deliver. This may cast significant doubt on the body's ability to continue as a going concern.

As stated on pages 4 and 5 (Going Concern), these events or conditions, along with the other matters as set forth in the Accounting Policies (Note 2), indicate that a material uncertainty exists that may cast significant doubt on the body's ability to continue as a going concern. Our opinion is not modified in respect of this matter. We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, we report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Reporting on the audit of the financial statements (continued)****Risks of material misstatement**

We report in our separate Annual Audit Report, the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the directors and Accountable Officer for the financial statements

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body's operations.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the body is complying with that framework;
- identifying which laws and regulations are significant in the context of the body;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

We are responsible for concluding on the appropriateness of the body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Ferguson Marine Port Glasgow (Holdings) Limited's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause Ferguson Marine Port Glasgow (Holdings) Limited to cease to continue as a going concern.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Reporting on the audit of the financial statements (continued)****Auditor's responsibilities for the audit of the financial statements (continued)**

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on regularity of expenditure and income**Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements**Opinion prescribed by the Auditor General for Scotland on audited part of the Remuneration and Staff Report**

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the directions made under the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Other Information

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

Our responsibility is to read all the statutory other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the directions made under the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the directions made under the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Reporting on other requirements (continued)**Matters on which we are required to report by exception**

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Joanne Brown

Joanne Brown (for and on behalf of Grant Thornton UK LLP)
110 Queen Street
Glasgow
G1 3BX

Date: 22/2/2023

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Consolidated Statement of Financial Position
for the year to 31 March 2022**

	Notes	2022 £000s	2021 £000s
Revenue	3	54,624	24,532
Cost of sales		(50,875)	(25,018)
Contract loss provision	15	-	89,547
Gross net surplus		3,749	89,061
Impairment of goodwill	8	-	-
Administrative expenses		(4,719)	(7,252)
Other operating income		644	421
Operating net surplus/(deficit)	4	(326)	82,230
Net surplus/(deficit) on ordinary activities before taxation		(326)	82,230
Finance expense		(5)	(7)
Net surplus/(deficit) before taxation		(331)	82,223
Tax on ordinary activities	7	512	-
Net surplus for the year after taxation		181	82,223
Other Comprehensive Income/(expenditure):			
Deferred Tax on property revaluation	7	(580)	-
Gain on revaluation of property		529	160
Comprehensive net surplus for the year		130	82,383

All of the activities of the group are classed as continuing.

The notes on Pages 27 to 48 form part of these financial statements.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Consolidated Statement of Financial Position
for the year to 31 March 2022**

	Notes	2022 £000s	2021 * £000s
Non-current assets			
Intangible assets	9	37	51
Property, plant and equipment	10	10,356	9,779
Deferred tax	11	580	-
		10,973	9,830
Current assets			
Construction contract assets	12	7,611	514
Trade and other receivables	13	2,415	1,964
Cash and cash equivalents	14	1,509	1,722
		11,535	4,200
Creditors: amounts falling due within one year	15	(7,904)	(6,787)
Contract loss provisions	16	-	(1,175)
Net current assets/(liabilities)		3,631	(3,762)
Total assets less current liabilities		14,604	6,068
Creditors: amounts falling due after more than one year	17	(162)	(336)
Deferred tax liabilities	11	(580)	-
Net assets		13,862	5,732
Capital and reserves			
Called up share capital	21	-	-
Capital contribution reserve	22	29,827	21,827
Profit and loss account		(17,742)	(17,923)
Revaluation reserve		1,777	1,828
Total equity		13,862	5,732

* The 2021 values have been restated to reflect that the Construction Contract Asset debt with Scottish Ministers related to the contract for Hull Nos 801 and 802 of £23,286,000 reported as at 31 March 2021, has been offset and netted off against the creditor balance of £23,286,000 reported as being repayable to Scottish Ministers as at 31 March 2021. There is a zero net effect on the financial statements as a result of this set-off.

All of the activities of the group are classed as continuing.

The notes on Pages 27 to 48 form part of these financial statements.

The consolidated financial statements of Ferguson Marine (Port Glasgow) Holdings Limited (Registered No SC638534) were approved by the board of directors and authorised for issue on 10 February 2023. They were signed on its behalf by the Accountable Officer.

David Tydeman

David Tydeman
Accountable Officer

22/2/2023

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Consolidated Statement of Changes in Taxpayers' Equity
for the year to 31 March 2022**

	Share capital	Capital contribution	Profit and loss account	Revaluation Reserve	Total
	£000s	£000s	£000s	£000s	£000s
At 01 April 2021	-	21,827	(17,923)	1,828	5,732
Net surplus for the year after taxation	-	-	181	-	181
Other comprehensive income	-	-	-	(51)	(51)
Capital contribution	-	8,000	-	-	8,000
At 31 March 2022	-	29,827	(17,742)	1,777	13,862

The equivalent disclosure for the prior period is as follows:

	Share capital	Capital contribution	Profit and loss account	Revaluation Reserve	Total
	£000s	£000s	£000s	£000s	£000s
At 01 April 2020	-	17,113	(100,146)	1,668	(81,365)
Net surplus for the year after taxation	-	-	82,223	-	82,223
Other comprehensive income	-	-	-	160	160
Capital contribution	-	4,714	-	-	4,714
At 31 March 2021	-	21,827	(17,923)	1,828	5,732

All of the activities of the company are classed as continuing.

The notes on Pages 27 to 48 form part of these financial statements

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Consolidated Statement of Cash Flows**

	Notes	2022 £000s	2021 £000s
Operating activities			
Surplus/(deficit) for the period before taxation		(331)	82,223
Adjustments for:			
Depreciation of property, plant and equipment	10	551	430
Depreciation of right of use assets	18	171	168
Loss on property, plant and equipment		19	21
Amortisation of intangible assets	9	19	17
Impairment of intangible asset		-	-
Impairment of goodwill		-	-
Contract loss provision released in the period	16	-	(90,772)
Contract loss provision created in the period	16	-	1,175
Contract loss provision utilised in the period	16	(1,175)	(1,481)
Movement in working capital		(6,601)	3,314
Cash used in operating activities		<u>(7,347)</u>	<u>(4,855)</u>
Investing activities			
Purchase of intangible assets	9	(5)	(15)
Purchase of property, plant and equipment		(790)	(1,067)
Proceeds from sales of property, plant and equipment		105	35
Cash used in investing activities		<u>(690)</u>	<u>(1,047)</u>
Financing activities			
Proceeds from the issue of shares	21	-	-
Capital contribution from shareholder	22	8,000	4,714
Lease payments	18	(176)	(174)
Cash generated from financing activities		<u>7,824</u>	<u>4,540</u>
Net cash generated			
Cash used in operating activities		(7,347)	(4,855)
Cash used in investing activities		(690)	(1,047)
Cash generated from financing activities		7,824	4,540
Net cash generated		<u>(213)</u>	<u>(1,362)</u>
Cash and cash equivalents at the beginning of the period		1,722	3,084
(Decrease)/increase in cash and cash equivalents		(213)	(1,362)
Cash and cash equivalents at 31 March	14	<u>1,509</u>	<u>1,722</u>
Cash and cash equivalents comprise:			
Cash at bank		<u>1,509</u>	<u>1,722</u>

All of the activities of the group are classed as continuing.

The notes on Pages 27 to 48 form part of these financial statements.

Ferguson Marine (Port Glasgow) Holdings Limited**SC638534****Company Statement of Financial Position
as at 31 March 2022**

	Notes	2022 £000s	2021 £000s
Non-current assets			
Investment in subsidiaries		-	-
Current liabilities			
Other creditors		-	-
Net assets		-	-
Capital and reserves			
Called up share capital		-	-
Total equity		-	-

The parent company has taken s408 exemption from preparing its own Statement of Profit and Loss and, as the company did not trade during the period, its net result was £Nil. The financial statements of Ferguson Marine (Port Glasgow) Holdings Limited (Registered No SC638534) were approved by the board of directors and authorised for issue on 1 December 2022. They were signed on its behalf by David Tydeman

David Tydeman
Accountable Officer

**Company Statement of Changes in Taxpayers' Equity
for the period ending 31 March 2022**

	Share capital £000s	Profit and loss account £000s	Total £000s
At 31 March 2021	-	-	-
Result for the period	-	-	-
At 31 March 2022	-	-	-

The equivalent disclosure for the prior period is as follows:

	Share capital £000s	Profit and loss account £000s	Total £000s
At 1 April 2020	-	-	-
Shares issued	-	-	-
Result for the period	-	-	-
At 31 March 2021	-	-	-

Company Statement of Cash flows

There are no cash flows in the year nor in the prior period through the company, and therefore no disclosure required. The notes on Page 27-48 form part of these financial statements.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

1. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 and approved by the directors in accordance with UK-adopted International Accounting Standards, and comply with those standards applicable as at 31 March 2022, interpreted and adapted where appropriate to take account of the guidance with the 2021-2022 Government Financial Reporting Manual (FReM).

The consolidated financial statements consolidate those of the company and its subsidiaries. The company financial statements present information about the company as a separate entity and not about its group.

These financial statements, for the period ended 31 March 2022, are the third that the group has prepared, but these are the second financial statements which reflect adoption of Government Financial Reporting Manual (FReM).

IFRS 16, as adapted and interpreted by FReM, will be effective from 1st April 2022, with two exceptions.

a) Early adoption from 1st April 2019 is available for entities where the following criteria are met:

- the entity has at least one subsidiary that, under the Companies Act, is required to follow IFRS as adopted by the EU, and the total assets of the subsidiary comprise at least 10% of the total assets at the group level;
- the subsidiary (or subsidiaries) described above have operating lease commitments that comprise at least 10% of the operating lease commitments at the group level; and
- approval to early adopt has been received from HM Treasury.

b) Early adoption from 1 April 2021 is available for entities where approval has been received from the relevant authority.

The Directors have applied early adoption of IFRS 16 having met the criteria for early adoption.

Of the new and revised standards that have been issued but not yet effective, the Directors consider that none would have any particular impact on the group.

The financial statements are presented in Pounds Sterling (GBP) and are rounded to the nearest thousand.

Going concern

Since formation of the company in late 2019, the business has been owned 100% by Scottish Ministers. The Board of Directors are registered with Companies House, as Company Directors, as the group is registered as a limited Company.

The Board of Directors have considered the Group's ability to continue as a going concern, with that assessment having considered the current capital position of the group, the operational and funding mechanism extant within the two contracts put in place with Scottish Ministers for the construction of the two ferry vessels (Hulls 801 and 802), the related project outlook and cost profile for those vessel builds over the next two years, and the opportunities for future new work and contract opportunities (Ferguson Marine (Commercial) Limited).

In respect of Hulls 801 and 802, the contract with Scottish Government (Customer) is a cost to completion contract. Scottish Government provide monthly funding in arrears to cover the costs of completing 801 and 802. Where there is a change to the delivery timescale, Ferguson Marine (801-802) Limited are required under the contract to notify Scottish Government. Funding has been provided within the Scottish Government budget for 2022/23 and 2023/24. The costs of 801 and 802 continue to be reviewed, alongside the delivery timeline and may be subject to additional cost and overrun. The current budget allocation does not yet cover the full cost anticipated as of January 2023.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

1. Summary of significant accounting policies (continued)

Going concern (continued)

Scottish Government have commissioned due-diligence work on behalf of Scottish Ministers in considering revised budgets for Hulls 801 and 802. This, alongside wider due diligence, creates an uncertainty over Scottish Ministers future commitment to fully fund the two vessels through to completion.

In respect of Ferguson Marine (Commercial) Limited, there are also risks and uncertainties over the future operation of this subsidiary within the Group. Currently an agreement with BAE is in place, although this is of limited scale. There is not yet clarity over the future investment by Scottish Ministers, beyond Hulls 801 and 802, which would allow additional investment in the yard, enabling the yard to competitively compete for and win new work. Beyond the delivery of Hulls 801 and 802, at this point in time, the Group have no further contracts to deliver. Without certainty over future funding, the ability for the Group to be competitive in future contracts may be affected, including the small vessels replacement program planned by CMAL on behalf of Transport Scotland. An ongoing due diligence review, which is not yet concluded, into the future direction of Ferguson Marine creates a risk and uncertainty over future activity, and whether activity and contracted income will be in place to meet all liabilities as they fall due.

Therefore, the Board of Directors has identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The Board of Directors anticipate Scottish Ministers clarifying the uncertainty within the first half of 2023.

Revenue

Revenue arises mainly from the construction of ships and other vessels, with some occasional revenue from spare parts, repairs, and services.

To determine whether to recognise revenue, the Group follows a 5-step process:

- 1 Identifying the contract with a customer
- 2 Identifying the performance obligations
- 3 Determining the transaction price
- 4 Allocating the transaction price to the performance obligations
- 5 Recognising revenue when/as performance obligation(s) are satisfied.

The group enters into contracts for the design, construction and delivery of ships and other vessels, typically in exchange for a fixed fee, although the two existing contracts for the hulls currently under construction contain a variable pricing mechanism. Due to the high degree of interdependence between the various elements of these projects, they are accounted for as a single performance obligation. The group recognises the related revenue over time.

To depict the group's progress in satisfying these performance obligations, and to establish when and to what extent revenue can be recognised, the group measures its progress by comparing actual costs spent to date with the total estimated costs required to design, construct, and deliver each vessel. The costs-to-costs basis provides the most faithful depiction of the transfer of goods and services to each customer due to the group's ability to make reliable estimates of the total costs, arising from its significant historical experience in vessel construction. In the early stage of some of these contracts the group is unable to make a reliable estimate of the outcome of the project but still expects to recover its costs. The group then recognises revenue equal to the costs incurred until it can make a reliable estimate.

Other operating income

Other operating income consists primarily of sales of scrap metal.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

1. Summary of significant accounting policies (continued)

Cost of sales

The cost of sales is the accumulated total of all costs used to create a product or service, which has been sold. The cost of sales comprises the sub-categories of direct labour and direct materials, which can be directly attributable to the creation of the product and will reflect the cost of materials and equipment which is deliverable as part of the completed product. In the case of the group, these are typically the costs of constructing a ship or vessel for delivery under the terms of a contract. Cost of sales will tend to be variable in a reporting period depending on the level of activities taking place. They are identified for each specific activity and contract and allocated to the contract.

Administrative expenses

Administrative expenses are the costs which cannot be directly attributed to any specific business activity, product, or service. They are the costs of providing functional and critical support to the activities being undertaken to construct a vessel or product.

During the reporting period of April 2021 to March 2022, Scotland continued to deal with the impact of one of the most significant public health issues in recent times, as the effects of the COVID-19 pandemic remained prevalent, and like many other businesses in the country, Ferguson Marine was affected by the impact of the COVID-19 pandemic. The cost impact of COVID-19 during the reporting period to March 2022 is £0.5m, which has been funded separately as an exceptional cost by Scottish Ministers. These costs are included within the Administrative expenses in the period.

Intangible assets

All finite-lived intangible assets are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing as described in Note 9.

The following useful lives are applied:

Purchased software	over 4 years
Intellectual property	over 5 years

Property, plant and equipment

In accordance with the Government Financial Reporting Manual (FReM), the company is required to value Property, plant and equipment on the basis of current value in existing use.

As permitted within the FReM guidelines, the company has adopted a policy of using depreciated historical cost basis as a proxy for current value in existing use for assets within the classification of plant and equipment, on the basis that they have short useful lives of 5 years.

Plant and equipment had been independently valued on acquisition from Ferguson Marine Engineering Limited (in Administration) in December 2019. At the time, the plant and equipment had been valued on a 'Market Value in-situ' basis, and this was deemed as cost in prior year.

However, the independent valuation of the Property carried out at the same time, was undertaken in December 2019 on the basis of an insolvency/forced sale, and therefore did not reflect full market value. For that reason, the company had an independent market valuation of Property at March 2021 carried out by Graham & Sibbald LLP, and that valuation has been reviewed and updated by Graham & Sibbald LLP at March 2022, with the results from that review having been applied to the Financial Statements. Valuations will occur with sufficient regularity to ensure Property, plant and equipment are held at current value in accordance with FReM.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

1. Summary of significant accounting policies (continued)

Depreciation is provided on all property, plant and equipment other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	over 30 years
Leasehold land and buildings	over the lease term
Plant and machinery	over a period of between 5 and 15 years (mostly 5 years)
Fixtures, fittings, tools and equipment	over 5 years

Financial instruments

The group does not use complex financial instruments.

Financial instruments comprise trade and other receivables, cash and cash equivalents, equity funding, and trade and other payables.

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets and liabilities are classified and held at amortised cost. After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

The group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators, and forward-looking information to calculate the expected credit losses.

Trade and other receivables

Short term debtors are measured at transaction price (which is usually the invoice price), less any impairment losses for bad and doubtful debts. Loans and other financial assets are initially recognised at transaction price including any transaction costs and subsequently measured at amortised cost determined using the effective interest method, less any impairment losses for bad and doubtful debts.

Trade and other payables

Short term creditors are measured at transaction price (which is usually the invoice price).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and petty cash.

Operating segments

The Company and group primarily report as a single core segment and therefore consider the primary financial statements as appropriate disclosure.

Construction contract assets

Customer receipts are based on a billing schedule, as established in the contract. The construction contract asset relates to our conditional right to consideration for our completed performance obligation under the contract, which will be invoiced in the future.

Taxation

A current tax liability is recognised for the tax payable on the taxable profit of the current and past periods, using the tax rates that have been enacted by the reporting date.

A current tax asset is recognised in respect of a tax loss that can be carried back to recover tax paid in a previous period.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

1. Summary of significant accounting policies (continued)

Deferred Taxation

Deferred tax is recognised in respect of temporary differences that will result in taxable or deductible amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Deferred tax assets are recognised to the extent it is probable that they will be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference, except for revalued land and investment property where the tax rate that applies to the sale of the asset is used.

Current and deferred tax assets and liabilities are not discounted.

Provisions

Provisions (i.e., liabilities of uncertain timing or amount) are recognised when there is an obligation at the reporting date as a result of a past event, it is probable that economic benefit will be transferred to settle the obligation and the amount of the obligation can be estimated reliably. Provisions are measured at the estimated expenditure required to settle the obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties involved with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

Foreign currency translation

Transactions in foreign currencies are initially recognised at the rate of exchange ruling at the date of the transaction.

At the end of each reporting period foreign currency monetary items are translated at the closing rate of exchange. Non-monetary items that are measured at historical cost are translated at the rate ruling at the date of the transaction. All differences are charged to profit or loss.

Leased assets

The group has applied early adoption of IFRS 16, which has resulted in the recognition of a right-of-use asset and corresponding lease liability (see Note 18 below) except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

For any new contracts, the group considers whether a contract is, or contains, a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the group;
- the group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the group has the right to direct the use of the identified asset throughout the period of use. The group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

1. Summary of significant accounting policies (continued)

Measurement and recognition of leases as a lessee

At lease commencement date, the group recognises a right-of-use asset and a lease liability on the Statement of Financial Position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the group's incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Pensions

Contributions to defined contribution plans are expensed in the period to which they relate.

Equity and reserves

Share Capital represents the nominal (par) value of shares that have been issued.

Other components of equity include a Capital Contribution Reserve which comprises public sector funding from the shareholders.

The Statement of Comprehensive Income represents all retained profits and losses of the business.

Capital Contribution Reserve

Ferguson Marine (Port Glasgow) Limited and Ferguson Marine (801-802) Limited have received grants that are treated as financing received from the controlling entity, which is Scottish Ministers. The receipts are recorded as a financing transaction and are credited directly to the Capital Contribution reserve in the Consolidated Statement of Financial Position and not through the Consolidated Statement of Comprehensive Income.

2. Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the date of the Statement of Financial Position, and the amounts reported for revenues and expenses during the period. However, the nature of judgements and estimates means that actual outcomes could differ from those assessments. The estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the group's accounting policies, management has had to make the following judgements and estimates, which have the most significant impact on the amounts recognised in the financial statements:

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

2. Critical accounting estimates and judgements (continued)

Judgements

i. Recoverability of receivables and construction contract assets

The company assesses at the date of each Statement of Financial Position whether a receivable or construction contract asset is impaired. Determining whether a receivable is impaired requires judgement to be applied based on the information available at each reporting date. A provision for impairment arises where there is evidence that the Group will not be able to collect amounts due. The majority of contracts entered into by the Group are with government organisations, and as a result, the risks associated with this judgement are not considered to be significant. An expected credit loss is recorded where there is evidence that a counterparty is at risk of default. If the loss was material, the amount would be presented separately in the Consolidated Statement of Comprehensive Income.

ii. Property, plant and equipment

All assets acquired from Ferguson Marine Engineering Limited (in Administration) by Ferguson Marine (Port Glasgow) Limited, following payment of the Consideration set out in the Sale and Purchase Agreement between the two parties, were valued by professional surveyors in late 2019.

In accordance with the Government Financial Reporting Manual (FReM), the company is required to value Property, plant and equipment on the basis of current value in existing use.

As permitted within the FReM guidelines, the company has adopted a policy of using depreciated historical cost basis as a proxy for current value in existing use for assets within the classification of plant and equipment, on the basis that they have short useful lives of 5 years.

Plant and equipment had been independently valued on acquisition from Ferguson Marine Engineering Limited (in Administration) in December 2019. At the time, the plant and equipment had been valued on a 'Market Value in-situ' basis.

However, the independent valuation of the Property carried out at the same time, was undertaken in December 2019 on the basis of an insolvency/forced sale, and therefore did not reflect full market value. For that reason, the company had an independent market valuation of Property at March 2021 carried out by Graham & Sibbald LLP, and that valuation has been reviewed and updated by Graham & Sibbald LLP at March 2022, with the results from that review having been applied to the Financial Statements.

All subsequent recent asset additions during the reporting period have been recorded at cost. The directors do not consider that any impairment is required at the date of the Statement of Financial Position.

iii. Capital Contribution Reserve

Ferguson Marine (Port Glasgow) Limited received cash during the reporting period that is treated as financing received from the controlling entity, which is Scottish Ministers. The receipts were not directly related to the 801 and 802 contracts, and as a result are recorded as a 'non-revenue' financing transaction, and are credited directly to the Capital Contribution reserve in the Consolidated Statement of Financial Position and not through the Consolidated Statement of Comprehensive Income.

Estimates

i. Revenue recognition and stage of completion

Percentage of completion accounting is used for revenue recognition on contracts where it is applicable. This requires that reasonable estimates can be made as to the extent of progress towards completion, project revenues, and project costs. Contract costs incurred correlate with progress on the projects, and so are a reasonable basis for estimated percentage of completion applied in Revenue recognition.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

2. Critical accounting estimates and judgements (continued)

II. Contract loss provisions

Specific provisions are created for the probable and estimable costs of contract loss, significant claims, and a general warranty provision for probable future costs based on respective revenue streams.

Upon completion of the Sale and Purchase Agreement of 2 December 2019, wherein the assets were purchased from Ferguson Marine Engineering Limited (in Administration), the business became committed to adoption and fulfilment of the existing build contracts for two vessels to Inverlussa. One of those two vessels had been delivered in the year 2020/21, with the second vessel, Hull No 805, completed and delivered in the reporting period which these financial statements cover. As at 31 March 2021, the contract for Hull No 805 had only £0.4m of revenue remaining to be invoiced, but the projected project costs to complete and achieve delivery were estimated at £1.6m. A contract loss provision of £1.18m was recognised at March 2021 to cover the remaining projected loss on the contract for the delivery of Hull 805. That loss provision has been utilised in the period.

Measurement of the contract loss provision included both indirect overheads and general and administrative costs on the basis that all these costs should be included as the directors have judged that they are 'unavoidable' and are wholly attributable to completion of the contract obligations. The type and nature of activities which give rise to the costs include substantial areas of work and support without which it would be impossible to complete the construction of the vessels, and so fulfil the contracts.

III. Construction Contract Asset as at 31 March 2021

As at 31 March 2021, the prior year accounts had reported a Construction Contract Asset debt with Scottish Ministers related to the contract for Hull Nos 801 and 802 of £23,286,000. It has been judged that this debtor should be offset and netted off against the creditor balance of £23,286,000 reported as being repayable to Scottish Ministers as at the same date of 31 March 2021, with the debtor and creditor being the same legal entity. The Statement of Financial Position has been restated for 2021, with the supporting notes amended and updated accordingly. There is a zero net effect on the financial statements as a result of this set-off.

3. Analysis of revenue

	2022 £000s	2021 £000s
Revenue from construction contracts	54,633	24,500
Sale of goods	-	-
Rendering of services	(9)	32
	<u>54,624</u>	<u>24,532</u>
By geographical market:		
United Kingdom	<u>54,624</u>	<u>24,532</u>

The group's revenue recognition is for services transferred over time.

The following aggregated amounts of transaction prices relate to the performance obligations from existing contracts that are unsatisfied or partially unsatisfied as at 31 March 2022:

	2023 £000s	2024 £000s	2025 £000s	Total £000s
Revenue expected to be recognised	40,178	-	-	40,178

The equivalent disclosure for the prior period is as follows:

	2022 £000s	2023 £000s	2024 £000s	Total £000s
Revenue expected to be recognised	49,100	33,400	-	82,500

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

4. Net Income/(Expenditure)

Net income/expenditure is stated after charging the following items of expenditure:

	2022	2021
	£000s	£000s
Depreciation of owned property, plant and equipment	722	598
Amortisation of intangible assets	19	17
Lease rentals - land and buildings	158	118
Lease rentals - plant and machinery	895	657
Loss on sale of owned property, plant and equipment	19	21
Fees payable to the company's auditor for the audit of the group accounts	47	57
Fees payable to the company's auditor for the audit of the accounts of subsidiaries	-	-

5. Directors' emoluments

	2022	2021
	£000s	£000s
Aggregate emoluments	953	829
Pension paid to a defined contribution scheme	7	6
	960	835
Highest paid director:		
Emoluments	661	660
Nos of Directors benefitting from defined contribution pension scheme	1	1

6. Staff costs

	2022	2021*
	£000s	£000s
Wages and salaries	11,319	8,958
Social security costs	1,129	868
Other pension costs	342	297
	12,790	10,123
Average number of employees during the period		
Operations	318	285
Sales and administration	14	7
	332	292

* The 2021 values have been restated to exclude the costs and headcount contained within the 'Others' column of the Staff costs table within the Remuneration report on Page 16, as this note refers to employees with a contract of employment directly with Ferguson Marine, whereas the 'Others' column includes non-employees such as agency staff.

Ferguson Marine (Port Glasgow) Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2022

7. Taxation

a) Tax (income)/expense included in Statement of Comprehensive Income

	2022	2021
	£000s	£000s
Current tax:		
Tax on Income/(loss) in the year	68	-
	68	-
Deferred tax:		
Deferred Tax – recognition of tax losses	(94)	-
Deferred tax – recognition of previously unrecognised tax losses	(347)	-
Adjustment in respect of prior year impact of tax rate changes	(139)	-
	(580)	-
Tax on ordinary activities per Statement of Comprehensive Income	(512)	-

b) Reconciliation of tax charge

	2022	2021
	£000s	£000s
Net profit/(loss) on ordinary activities before tax	(331)	82,223
Standard rate of corporation tax in UK	19%	19%
Income/(loss) multiplied by standard rate of corporation tax	(63)	15,622
Depreciation on ineligible assets	-	64
Exempt amounts	43	-
Expenses not deductible for tax purposes	1	(39)
Deferred tax – recognition of previously unrecognised tax losses	(347)	-
Impact of tax rate changes	(139)	-
Income not taxable	-	(17,237)
Effects of group relief	-	-
Deferred tax not recognised	(7)	1,590
Tax on ordinary activities per Statement of Comprehensive Income	(512)	-

c) Tax (income)/expense included in Other Comprehensive Income

	2022	2021
	£000s	£000s
Deferred tax:		
Deferred Tax current year charge	94	-
Deferred tax adjustment on prior year property revaluation	347	-
Adjustment in respect of prior year impact of tax rate changes	139	-
	580	-

At the reporting date, the group had unused tax losses of £16,927,084 (2021: £13,537,580) available for offset against future profits. These losses can be carried forward indefinitely. Deferred tax asset from partial use of tax losses has been recognised to the equivalent value of the Deferred Tax Liability related to the property revaluation, thereby bringing the overall deferred tax to a net zero. No deferred tax asset has been recognised on the remaining unused tax losses, on the basis that their future economic benefit is uncertain. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). The increased rate was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using the enacted tax rates and reflected in these financial statements.

Ferguson Marine (Port Glasgow) Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2022

8. Goodwill

	2022
Cost	£000s
At 1 April 2021	94,813
Additions	-
At 31 March 2022	94,813
Amortisation	
At 1 April 2021	94,813
Provided during the period	-
At 31 March 2022	94,813
Carrying amount	
At 31 March 2022	-

The equivalent disclosure for the prior period is as follows:

	2021
Cost	£000s
At 1 April 2020	94,813
Additions	-
At 31 March 2021	94,813
Amortisation	
At 1 April 2020	94,813
Provided during the period	-
At 31 March 2021	94,813
Carrying amount	
At 31 March 2021	-

9. Intangible assets

	Intellectual Property	Software	Total
	£000s	£000s	£000s
Cost			
At 1 April 2021	183	73	256
Additions	-	5	5
At 31 March 2022	183	78	261
Amortisation			
At 1 April 2021	183	22	205
Provided during the period	-	19	19
At 31 March 2022	183	41	224
Carrying amount			
At 31 March 2022	-	37	37
At 31 March 2021	-	51	51

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

9. Intangible assets (continued)

The intangible asset values as at 31 March 2022 relate to software procured and used within the business.

The Government Financial Reporting Manual (FReM) requires where possible for intangible assets to be held on a value in basis. Given the nature and type of asset, it is not possible to identify a market informed value in use, and the policy applied has been to carry value at depreciated replacement cost.

The equivalent disclosure for the prior period is as follows:

	Intellectual Property	Software	Total
	£000s	£000s	£000s
Cost	183	58	241
Additions	-	15	15
At 31 March 2021	183	73	256
Amortisation	183	5	188
Provided during the period	-	17	17
At 31 March 2021	183	22	205
Carrying amount			
At 31 March 2021	-	51	51

10. Property, plant and equipment

	Land and buildings	Assets under Construction	Plant and machinery	Fixtures, fittings, tools and equipment	Total
	£000s	£000s	£000s	£000s	£000s
Cost or valuation					
At 1 April 2021	7,157	102	2,963	48	10,270
Additions	-	-	159	25	184
Asset under construction	-	606	-	-	606
Disposals	-	-	(25)	-	(25)
Revaluations	315	-	-	-	315
At 31 March 2022	7,472	708	3,097	73	11,350
Depreciation					
At 1 April 2021	183	-	300	8	491
Charge for the period	393	-	313	16	722
Disposals	-	-	(6)	-	(6)
Revaluations	(213)	-	-	-	(213)
At 31 March 2022	363	-	607	24	994
Carrying amount					
At 31 March 2022	7,109	708	2,490	49	10,356
At 31 March 2021	6,974	102	2,663	40	9,779
Carrying value of land and buildings included above held under leases	337	At 31 March 2022			
	507	At 31 March 2021			

Ferguson Marine (Port Glasgow) Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2022

10. Property, plant and equipment (continued)

The equivalent disclosure for the prior period is as follows:

	Land and buildings	Assets under Construction	Plant and machinery	Fixtures, fittings, tools and equipment	Total
	£000s	£000s	£000s	£000s	£000s
Cost or valuation					
At 1 April 2020	7,122	-	2,208	28	9,358
Additions	35	-	940	20	995
Assets under construction	-	102	-	-	102
Disposal	-	-	(185)	-	(185)
Revaluations	-	-	-	-	-
At 31 March 2021	7,157	102	2,963	48	10,270
Depreciation					
At 1 April 2020	4	-	73	-	77
Charge for the period	339	-	251	8	598
Disposals	-	-	(24)	-	(24)
Revaluations	(160)	-	-	-	(160)
At 31 March 2021	183	-	300	8	491
Carrying amount					
At 31 March 2021	6,974	102	2,663	40	9,779
Carrying value of land and buildings included above held under leases	507				

In accordance with the Government Financial Reporting Manual (FReM), the company is required to value Property, plant and equipment on the basis of current value in existing use.

As permitted within the FReM guidelines, the company has adopted a policy of using depreciated historical cost basis as a proxy for current value in existing use for assets within the classification of plant and equipment, on the basis that they have short useful lives of 5 years.

Plant and equipment had been independently valued on acquisition from Ferguson Marine Engineering Limited (in Administration) in December 2019. At the time, the plant and equipment had been valued on a 'Market Value in-situ' basis.

However, the independent valuation of the Property carried out at the same time, was undertaken in December 2019 on the basis of an insolvency/forced sale, and therefore did not reflect full market value. For that reason, the company had an independent market valuation of Property at March 2021 carried out by Graham & Sibbald LLP, and that valuation has been reviewed and updated by Graham & Sibbald LLP at March 2022, with the results from that review having been applied to the Financial Statements.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

11. Deferred tax liabilities/(assets)

Deferred taxes arising from temporary differences and unused tax losses are summarised as follows:

	Net Balance at 1 April 2021	Recognised in Other Comprehensive Income	Recognised in Consolidated Statement of Comprehensive Income	Net Balance at 31 March 2022
	£000s	£000s	£000s	£000s
Non-Current Assets				
Unused tax losses	-	-	(580)	(580)
Current Liabilities				
Property, plant & equipment	-	580		580
Net deferred tax liabilities/(assets)	-	580	(580)	-
Deferred tax assets	-	-	(580)	(580)
Deferred tax liabilities	-	580	-	580

The equivalent disclosure for the prior period is as follows:

	Net Balance at 1 April 2020	Recognised in Other Comprehensive Income	Recognised in Consolidated Statement of Comprehensive Income	Net Balance at 31 March 2021
	£000s	£000s	£000s	£000s
Non-Current Assets				
Unused tax losses	-	-	-	-
Current Liabilities				
Property, plant & equipment	-	-	-	-
Net deferred tax liabilities/(assets)	-	-	-	-
Deferred tax assets	-	-	-	-
Deferred tax liabilities	-	-	-	-

The amounts recognised in Other Comprehensive Income relate to revaluation of property. See Note 7 for the tax relating to those components of Other Comprehensive Income.

12. Construction contracts

For contracts in progress at the balance sheet date, the amount relating to a contract asset created in applying IFRS 15 to date was £7,610,779 (2021: £514,250).

As at 31 March 2021, the prior year accounts had reported a Construction Contract Asset debt with Scottish Ministers related to the contract for Hull Nos 801 and 802 of £23,286,000. It has been judged that this debtor should be offset and netted off against the creditor balance of £23,286,000 reported as being repayable to Scottish Ministers as at the same date of 31 March 2021, with the debtor and creditor being the same legal entity. The Statement of Financial Position and note above has been restated for 2021. There is a zero net effect on the financial statements as a result of this set-off.

There were no retentions held by customers for contract work.

The value of advances received from customers for contract work amounted to £nil (2021: £nil).

Ferguson Marine (Port Glasgow) Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2022

13. Trade and other receivables

	2022 £000s	2021 £000s
Trade receivables	9	148
Other receivables	1,799	1,471
Prepayments and accrued income	318	345
R&D Expenditure Credit Claim	289	-
At 31 March	<u>2,415</u>	<u>1,964</u>

Trade receivables are non-interest bearing and are on immediate or 30 days terms.

Of the carrying value of £9,278, the full balance relates to two customers, one of which is for scrap metal, and the other customer purchased surplus plant and equipment from a subsidiary company (2021: £147,799 relates to two customers).

Analysis of trade receivables:

	2022 £000s	2021 £000s
Neither impaired nor past due	9	124
Past due but not impaired	-	24
Impaired	-	-
At 31 March	<u>9</u>	<u>148</u>

Ageing of past due but not impaired trade receivables:

	2022 £000s	2021 £000s
Up to 3 months past due	9	24
Between 3 and 6 months past due	-	-
More than 6 months past due	-	-
At 31 March	<u>9</u>	<u>24</u>

14. Cash and cash equivalents

The company is required to disclose the opening position, net change in balances and the closing position separately for cash and cash equivalents. The company only has cash, with no cash equivalents at the opening and closing position. Therefore, the cash and cash equivalents values reported in the Statement of Financial Position are only for cash.

The summary balance and movements are shown in the following table:

	2022			2021		
	Cash	Cash	Total	Cash	Cash	Total
	£000s	Equivalent	£000s	£000s	Equivalent	£000s
		£000s			£000s	
Opening Balance	1,722	-	1,722	3,084	-	3,084
Net increase/(decrease) in reporting period	(213)	-	(213)	(1,362)	-	(1,362)
Closing Balance	<u>1,509</u>	<u>-</u>	<u>1,509</u>	<u>1,722</u>	<u>-</u>	<u>1,722</u>

Ferguson Marine (Port Glasgow) Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2022

15. Creditors: amounts falling due within one year

	2022	2021 *
	£000s	£000s
Trade payables	4,195	3,291
Other taxes and social security costs	384	550
Amounts owed to Scottish Ministers	-	-
Other creditors	55	281
Accruals and deferred income	3,096	2,494
Obligations under leases	174	171
At 31 March	7,904	6,787

Prior to the implementation of the funding mechanism embedded in the two new shipbuilding contracts between Ferguson Marine (801-802) Limited and Scottish Ministers, which were signed on 22 March 2021 and effective from 1 April 2020, cash funding for the company during the 12 months to 31 March 2021 was provided by Scottish Ministers. The contractual arrangements provide for monthly payments, but with the new contracts only having been effected in March 2021, the first invoices to cover the period 1 April 2020 to 31 March 2021 were not raised until after the reporting period ended. The prior year accounts had reported cash paid as a creditor balance of £23,286,000, being repayable to Scottish Ministers as at the same date of 31 March 2021. As at 31 March 2021, the prior year accounts also had reported a Construction Contract Asset debt with Scottish Ministers related to the contract for Hull Nos 801 and 802 of £23,286,000. It has been judged that the creditor should be offset and netted off against the Construction Contract Asset balance of £23,286,000 reported as being due from Scottish Ministers as at the same date of 31 March 2021, with the debtor and creditor being the same legal entity. The Statement of Financial Position and note above has been restated for 2021. There is a zero net effect on the financial statements as a result of this set-off.

16. Contract loss provisions

	2022	2021
	£000s	£000s
At 1 April	1,175	92,203
Provisions released on signing new contracts with Scottish Ministers	-	(90,722)
Arising during the period	-	1,175
Utilised during the period	(1,175)	(1,481)
At 31 March	-	1,175

The contract loss provision at 31 March 2022 for vessels 801 and 802 was £nil (2021: £nil) and for vessel 805 (MV Kallista Helen) for Inverlussa Shellfish Company Limited delivered in June 2021, was £nil (2021: £1,175,000).

17. Creditors: amounts falling due after one year

	2022	2021
	£000s	£000s
Obligations under leases	162	336
At 31 March	162	336

Ferguson Marine (Port Glasgow) Holdings Limited
Notes to the Financial Statements
for the year ended 31 March 2022

18. Right-of-use assets and liability

	2022 £000s	2021 £000s
Gross carrying amount		
At 1 April	675	644
Additions	-	31
At 31 March	675	675
Depreciation		
At 1 April	168	-
Charge for the period	171	168
At 31 March	339	168
Carrying amount		
At 31 March	336	507

In March 2020, Ferguson Marine (Port Glasgow) Limited entered a four-year lease for property at a site in Greenock. The property is used primarily for warehousing purposes. There are no restrictions placed upon the lessee by entering into this lease. The company is entitled to extend the term of this lease by a further four years. The weighted average incremental borrowing rate applied to the lease liability was 1%, based on indicative rates provided by Scottish Government.

Right-of-use asset	Number of right-of-use assets leased	Range of remaining term	Average remaining lease term	Number of leases with extension options	Number of leases with options to purchase	Number of leases with variable payments linked to an index	Number of leases with termination options
Warehouse	1	2 years	2 years	1	0	0	0

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 March 2022 were as follows:

	Within 1 Year £000s	1-2 Years £000s	2-3 Years £000s	3-4 Years £000s	Total £000s
Lease payments	176	162	-	-	338
Finance charges	(2)	-	-	-	(2)
Net present values	174	162	-	-	336

The equivalent disclosure for the prior period of future minimum lease payments is as follows:

	Within 1 Year £000s	1-2 Years £000s	2-3 Years £000s	3-4 Years £000s	Total £000s
Lease payments	176	176	163	-	515
Finance charges	(5)	(3)	-	-	(8)
Net present values	171	174	163	-	507

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

19. Financial instruments

Risk management objectives and policies

The group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 23. The main types of risks are market risk, credit risk and liquidity risk.

Foreign currency sensitivity

Most of the group's transactions are carried out in Pounds Sterling (GBP). Exposures to currency exchange rates arise from the group's overseas purchases, which are primarily denominated in Euros (EUR). To mitigate the group's exposure to foreign currency risk, non-GBP cash flows are monitored.

Commodity price risk

The group's exposure to raw material price risk is generally diminished by restricting bid validity to periods within those quoted by suppliers and by material price escalation clauses.

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the company provides goods and services on deferred credit terms. Company policies and procedures are aimed at minimising such losses and require that deferred credit terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Where appropriate, due diligence is undertaken to assess the financial status of an existing or potential new customer.

Liquidity risk

The table below summarises the maturity profile of the group's financial liabilities at 31 March 2022 based on contractual cash flows.

	Current		Non-Current	
	Within 6 months £000s	6 to 12 months £000s	1 to 5 years £000s	Later than 5 years £000s
Trade and other payables	7,818	86	162	-
At 31 March 2022	7,818	86	162	-

20. Capital management

The group's capital management objectives are to ensure the group's ability to continue as a going concern. The group has no externally imposed capital requirements and manages capital to ensure it meets its commitments consistent with its corporate plan. The major source of income in the reporting period is progressive advance payment of the price which is due to be paid by Scottish Ministers to Ferguson Marine (801-802) Limited under the terms of the new contract arrangements executed in April 2021, which were effective from 1 April 2020, plus some further capital contribution from the shareholders, as commented upon in Note 22.

The current contractual structure with Scottish Ministers for the two ferries being built for CMAL means that the majority income in the next year will be generated from the contract payment mechanism in those contracts.

The group has no material exposure to any foreign currency risk.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

21. Share capital

	Nominal Value	2022 Number	2022 £000s	2021 Number	2021 £000s
Allotted, called up and fully paid:					
Ordinary shares	£1 each	1	-	1	-

Ordinary Shares, with par value of £1, rank equally and carry one vote per share, and carry a right to dividends. Each share ranks equally for any distribution made on a winding up.

22. Capital contribution reserve

The Scottish Government provided a capital contribution by way of their payment for the purchase of the assets of Ferguson Marine Engineering Limited (in Administration) for £7,544,000 in the period to March 2020.

Additionally, funding of £9,569,000 for the construction of vessels 801 and 802 was received from the Scottish Government during the period to 31 March 2020.

During the year to 31 March 2021, funding of £4,714,724 was received from the Scottish Government, which was mainly for the Exceptional costs incurred in the period related to lockdown and other effects of COVID-19.

During the year to 31 March 2022, funding of £8,000,000 for working capital requirements was received from the Scottish Government prior to the mechanics of the payment mechanism within the two new build contracts with Scottish Ministers for Hulls 801 and 802 being implemented early in the reporting period.

Total funding provided by capital contribution is therefore £29,827,724 (2021: £21,827,724).

23. Financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

The group's financial instruments comprise cash, trade receivables, and trade payables, all of which arise directly from its operations. The principal risks to which the group is exposed are those relating to credit and liquidity. These risks are managed in accordance with group approved policies.

Financial assets at amortised cost	2022 Carrying Amount £000s	2022 Fair Value £000s	2021 * Carrying Amount £000s	2021 * Fair Value £000s
Trade receivables	9	9	148	148
Cash and cash equivalents	1,509	1,509	1,722	1,722
Contract construction assets	7,611	7,611	514	514
Other receivables	1,799	1,799	1,367	1,367
RDEC	289	289	-	-
Total financial assets	11,217	11,217	3,751	3,751

- As at 31 March 2021, the prior year accounts had reported a Construction Contract Asset debt with Scottish Ministers related to the contract for Hull Nos 801 and 802 of £23,286,000. It has been judged that this debtor should be offset and netted off against the creditor balance of £23,286,000 reported as being repayable to Scottish Ministers as at the same date of 31 March 2021, with the debtor and creditor being the same legal entity. The Statement of Financial Position and note above has been restated for 2021. There is a zero net effect on the financial statements as a result of this set-off.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

23. Financial assets and financial liabilities (continued)

Financial liabilities at amortised cost	2022 Carrying Amount £000s	2022 Fair Value £000s	2021 * Carrying Amount £000s	2021 * Fair Value £000s
Trade payables	4,195	4,195	3,291	3,291
Contract Funding - Scottish Ministers	-	-	-	-
Other creditors	55	55	281	281
Accruals	2,760	2,760	2,494	2,494
Obligations under leases	174	174	171	171
Total financial liabilities	7,184	7,184	6,237	6,237

24. Related party transactions

The company has taken advantage of the available exemptions regarding disclosure of transactions and balances with entities which form part of that group of companies.

Tim Hair is a director of Melville Management Limited and provided his services to Ferguson Marine (Port Glasgow) Limited via this entity. During the period, £661,341 (2021: £660,240) of costs excluding VAT were incurred for these services. The balance outstanding and due to Melville Management Limited at 31 March 2022 is £42,708 (2021: £67,801) including VAT.

The company has transacted with Crown Estates during the reporting period, and the subsidiary Ferguson Marine (Port Glasgow) Limited paid Crown Estates the sum of £7,235 in the year to 31 March 2022 for the use of the foreshore area at Newark Works, Port Glasgow. The balance outstanding and due to Crown Estates at 31 March 2022 is £Nil (2021: £Nil).

Scottish Ministers, by virtue of being the 100% shareholder of Ferguson Marine (Port Glasgow) Holdings Limited is a related party, and during the reporting period Ferguson Marine (801-802) Limited has received progress payments in relation to contracts for Hulls 801 and 802 of £54,612,476 from Scottish Ministers. As at 31 March 2022, an accrued debtor in respect of a Construction Asset for the value of £7,610,779 is due to Ferguson Marine (801-802) Limited by Scottish Ministers (2021: £Nil).

25. Controlling party

The ultimate controlling party is Scottish Ministers on behalf of the Scottish Government.

26. Legal form of entity and country of incorporation

Ferguson Marine (Port Glasgow) Holdings Limited is a private company limited by shares and incorporated in Scotland.

27. Subsidiary undertakings

The group holds the following investments in subsidiaries:

Name	Registration No	Country of Registration	Shareholding	Nature of business
Ferguson Marine (Port Glasgow) Limited	SC638457	Scotland	100%	Shipbuilding
Ferguson Marine (801-802) Limited	SC638508	Scotland	100%	Shipbuilding
Ferguson Marine (Commercial) Limited	SC638592	Scotland	100%	Shipbuilding

The Board of Directors have resolved to seek exemption from audit by parent guarantee, under s479A-479C of the Companies Act 2006, for each of the three subsidiary companies listed above. Following the appropriate Board resolution, the required documentation will be submitted to Companies House.

Ferguson Marine (Port Glasgow) Holdings Limited

Notes to the Financial Statements

for the year ended 31 March 2022

28. Principal place of business

The address of the company's principal place of business and registered office is:

Newark Works
Castle Road
PORT GLASGOW
PA14 5NG

29. Notes relating to the Company Statement of Financial Position

Basis of preparation

The company financial statements have been prepared in accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000, and approved by the directors in accordance with international financial reporting standards in conformity with the requirements of the Companies Act 2006 and comply with those standards applicable as at 31 March 2022, interpreted and adapted where appropriate to take account of the guidance with the 2021-2022 Government Financial Reporting Manual (FReM).

Under s408 of the Companies Act 2006 the company is exempt from the requirement to present its own Statement of Profit and Loss.

In these financial statements, the company has applied the exemptions in respect of the following disclosures:

- a cashflow statement and related notes
- transactions with wholly owned subsidiaries
- financial risk management disclosures
- capital management disclosures
- disclosures in respect of financial instruments
- the effect of future accounting standards not adopted.

Measurement convention

The financial statements have been prepared on the historical cost basis.

Employees

The company has no employees.

Directors' remuneration

The directors received no remuneration from the company.

30. Investments

Details of the investments in which the group holds 20% or more of the nominal value of any class of share capital are as follows:

	Holding	Proportion of Shares Held
Ferguson Marine (Port Glasgow) Limited	Ordinary	100%
Ferguson Marine (801-802) Limited	Ordinary	100%
Ferguson Marine (803-805) Limited	Ordinary	100%



Scottish Government
Riaghaltas na h-Alba
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Ferguson Marine (Port Glasgow) Holdings Limited

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 hereby give the following direction.
2. The statement of accounts for the financial period ended 31 March 2021, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts.

Signed by the authority of the Scottish Ministers

Dated: 16/09/2021