

## Project scope

# Ferry services in Scotland



AUDITOR GENERAL 

Prepared by Audit Scotland  
December 2016

### Background

Every year around 8 million passengers and 2.6 million vehicles travel on ferry routes within Scotland. Sixty-six per cent of passengers (5.2 million) and 44 per cent of vehicles (1.1 million) travel on routes subsidised by the Scottish Government. The remainder of the ferry routes are operated by, or on behalf of, four councils (Argyll & Bute, Highland, Orkney and Shetland Islands), Strathclyde Partnership for Transport (SPT) and a number of private ferry companies.

The Scottish Government, through Transport Scotland, provides financial assistance to reduce the cost of ferry travel on routes that are considered 'lifeline' for remote and rural communities. This is intended to help maintain rural populations, encourage tourism and increase rural economic growth. Transport Scotland currently subsidises 30 lifeline ferry routes, operated through three contracts ([Table 1](#)) at a cost of around £153 million a year.<sup>1</sup> It provides the ferry operators with an agreed level of financial subsidy, allowing them to charge lower ticket prices, in return for a specified level of service.

## Why are we doing this audit?

Transport Scotland's subsidy payments to ferry operators have increased by 87 per cent, in real terms, since 2007/08. Over the last two years alone, subsidies have increased by 20 per cent.<sup>2</sup> Subsidies have increased partly due to the gradual introduction of the Scottish Government's Road Equivalent Tariff (RET) scheme throughout the CHFS network between 2008 and 2014.<sup>3</sup> RET has reduced the cost of passenger and vehicle ticket prices by an average of 44 and 55 per cent. The scheme requires additional subsidy payments to be made to the ferry operator and the future demand and cost of this is unclear. In total, Transport Scotland has invested around £1 billion in ferry vessels, ports and services since 2007.<sup>4</sup> Our audit will examine spending on ferries and what this achieves, to help establish whether it provides value for money.

The operation of ferry services in Scotland is complex due to historical arrangements, EU state aid and maritime legislation. There is also a high level of political and community interest. Our audit will explain ferry operations, including the roles of the different bodies involved, and will establish whether appropriate arrangements are in place to make effective decisions on the operation of ferry services.

The CHFS contract is worth around £900 million over eight years and is one of the largest contracts let by Transport Scotland. Our audit will assess the procurement and contract management arrangements in place to help identify good practice and lessons learned for future ferry services contracts.

## What will the scope of the audit be?

This audit will assess whether investment in lifeline ferry services is providing value for money. The audit will focus on the three Scottish Government subsidised contracts mentioned in [Table 1](#). It will not assess ferry services operated by councils or private operators. The audit will seek to answer the following questions:

- Is there clarity around the operation of subsidised ferry services, including the roles and responsibilities of the different bodies involved?

- How much is spent on subsidised ferry services, what does this achieve and how does Transport Scotland demonstrate that its expenditure is value for money?
- To what extent are Transport Scotland's procurement arrangements for ferry services appropriate and helping to obtain best value?
- Does Transport Scotland have an evidence-based strategy for the long-term investment in ferry services and assets?

## How will we carry out the audit?

We will obtain evidence for our audit by:

- reviewing strategic documents, including Transport Scotland's corporate plans, Ferries Plan, Vessel Replacement & Deployment Plan and board papers
- seeking the views of ferry users through, for example, speaking to ferry committees, community councils and haulage companies. We will also consider how best to gather a wider range of views
- interviewing representatives from Transport Scotland, Caledonian Maritime Assets Limited (CMAL), the ferry operators and other partners involved, such as Regional Transport Partnerships and local authorities
- examining the recent CHFS procurement exercise, by reviewing the contract and procurement documentation and also speaking to procurement staff and bidders
- analysing a range of financial and performance information.

## What impact will the audit have?

The audit will improve public understanding of ferry services in Scotland. It will provide assurance to the Scottish Parliament and the public that Transport Scotland has appropriate arrangements in place to manage ferry contracts efficiently and effectively. It

will highlight good practice and lessons learned to help Transport Scotland improve the management, including future procurements, of ferry services.

## Audit timing and contacts

We aim to publish in the Autumn of 2017. Following publication, the Auditor General will present findings to the Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee.

## Contacts

For further information on the audit contact Gill Miller, Audit Manager, on 0131 625 1830 or [gmillier@audit-scotland.gov.uk](mailto:gmillier@audit-scotland.gov.uk)

### Notes:

1. Scottish Government draft budget document, 2016/17.
2. Scottish Government draft budget documents, 2007/08 to 2016/17.
3. The RET scheme involves setting ferry fares on the basis of the cost of travelling an equivalent distance by road.
4. CMAL annual reports and accounts, 2015/16.

**Table 1**

Transport Scotland ferry contracts

	The Clyde and Hebrides Ferry Service (CHFS)	Gourock - Dunoon	The Northern Isles Ferry Service
<b>Routes</b>	26 throughout the Clyde and Hebrides	1 passenger only route	3 routes to the Orkney and Shetland Islands
<b>Operator</b>	CalMac Ferries Ltd (A subsidiary of David MacBrayne Ltd, owned by Scottish Ministers)	Argyll Ferries Ltd (A subsidiary of David MacBrayne Ltd, owned by Scottish Ministers)	Serco Northlink
<b>Contract duration</b>	Oct 2016 – Sept 2024	June 2011 – June 2017	June 2012 – April 2018
<b>Annual traffic numbers</b>	4.6m passengers 1.2m vehicles	310,000 passengers	298,000 passengers 59,000 vehicles

Source: Audit Scotland



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
 T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)   
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:

