

AUDIT ON TRANSPORT SCOTLAND'S FERRY SERVICE

1.0 EXECUTIVE SUMMARY

- 1.1 Audit Scotland published a report in October 2017 on Transport Scotland's subsidised ferry services. This report provides Members with a review of the Audit Scotland Report, highlighting the recommendations made therein; it examines how the audit findings may have a consequential effect on services provided by the Council.
- 1.2 It is recommended that Members consider this report.
- 1.3 Audit Scotland highlight a number of issues and, ultimately, make a number of recommendations in their report. The audit report does not comment on this Council's four internally operated ferry services, nor does it comment directly on Council-operated ferry terminals. However, a number of the issues raised in the audit report do have consequences for Argyll and Bute Council.
- 1.4 Particular issues highlighted in this report, which will affect services provided by Argyll and Bute Council, are as follows:-
- Gourock to Dunoon Ferry Service
 - Harbour Dues
 - Introduction of Road Equivalent Tariff (RET)
 - Ferry Freight Fares
 - Condition of harbours
- 1.5 A number of the points highlighted in the report, and recommendations made therein, will lead to detailed discussion between Council officers and colleagues in Transport Scotland (TS), Calmac and CMAL.
- 1.6 Much work has already been carried out by Council officers, in terms of: asset management planning; financial planning; ongoing engagement with opposite numbers in TS, Calmac, CMAL; consultation with community groups and users of marine facilities; and engagement with Members through the Harbour Board.
- 1.7 The findings of the audit report will undoubtedly provide a sound foundation for ongoing and future discussions.

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2.0 INTRODUCTION

- 2.1 Audit Scotland published a report in October 2017 on Transport Scotland's subsidised ferry services. This report provides Members with a review of the Audit Scotland Report, highlighting the recommendations made therein; it examines how the audit findings may have a consequential effect on services provided by the Council.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that Members consider this report.

4.0 BACKGROUND

- 4.1 The Audit Scotland report on Transport Scotland's subsidised ferry services reviews the external routes operating between mainland Scotland and Shetland and Orkney, and both the external and internal routes operating within the Western Isles. The report does not review ferry services provided by Argyll and Bute Council or any other local councils, the private sector or other operators.
- 4.2 The report states that '*...Ferries are an essential part of Scotland's transport network. The Scottish Government considers that the quality and affordability of ferry services are vital for sustaining some of the most remote and geographically dispersed communities in Europe.We estimate that there are 66 routes connecting mainland Scotland and its islands, managed by a number of public and private operators. Every year about nine million passengers and 2.8 million cars travel on these routes. Ferries also transport essential goods to remote communities and help export large amounts of island produce, including seafood and whisky, which contribute significantly to Scotland's economy. ...*
- 4.3 As mentioned in 4.1 above, the audit report does not comment on this Council's four internally operated ferry services, nor does it comment directly on Council-operated ferry terminals. However, a number of the issues raised in the audit report do have consequences for Argyll and Bute Council.

5.0 DETAIL

5.1 A copy of Audit Scotland's full report can be found here:-

http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_171019_ferry_services.pdf

5.2 Audit Scotland highlight a number of issues and, ultimately, make a number of recommendations in their report. Some of the more notable issues highlighted in the report, which could have consequential effects on services provided by Argyll and Bute Council, are listed below (the use of italics denotes statements taken directly from the Audit Scotland report – bold lettering has been used to highlight points worthy of particular note):-

5.2.1 **Gourock to Dunoon Ferry Service** - *'.....In February 2017, the Minister for Transport and the Islands announced a review into the future procurement of ferry services. In particular, the review is to consider: whether the Teckal exemption* could be applied, whether the tendering of ferry services is value for money and the governance and organisational structures of David MacBrayne Ltd and CMAL. **The review has resulted in a pause to the procurement exercises for the next Gourock-Dunoon and NIFS contracts....'***

'....The specification for the new Gourock-Dunoon contract requires the operator to use its own 40-metre vessels, to help improve reliability on the route. If the contract is awarded to David MacBrayne Ltd (DML), this will require public sector investment in new vessels. While the tender exercise is currently paused, it is important that Transport Scotland considers the value for money of providing financial support for this route, in the context of: the cost of the new vessels....., falling passenger numbers since 2007, increasing subsidies since 2011 (which are estimated to increase further to £4.2 million a year at the start of the new contract), the required £13 million investment in Gourock harbour (as estimated in the Ferries Plan), the presence of a successful commercial operator on an adjacent route....'

*Teckal exemption - The European Court of Justice has ruled that a public body may award a public services contract directly to a company that it wholly owns, provided that certain criteria are met.

A decision on the future of the Dunoon to Gourock ferry service is awaited by the Council. The future development of the Dunoon harbour area (waiting rooms / car parking and marshalling areas / public conveniences / harbormaster's office / timber pier building / link-span) and use of marine resources, depends upon Transport Scotland's plans for this ferry route.

5.2.2 **Harbour Dues** - *'...Transport Scotland spent a total of £200 million on harbour dues between contract years 2007-08 and 2015-16. Of this, £155 million (78 per cent) was on harbours not owned by CMAL. Transport Scotland does not know how much of the harbour dues paid to non-CMAL harbour owners have been used for improvement works. In addition, where Transport Scotland has funded the capital cost of upgrading non-CMAL*

harbours, it has continued to pay the same or higher levels of harbour dues (which are meant to pay for the upgrade costs). For example, Ullapool harbour dues have increased by 78 per cent since September 2014 despite Transport Scotland paying the majority of the upgrade costs....'

Argyll and Bute Council sets fees and charges at a level which ensures that income generated at each of the Council's main ferry ports covers total costs for each individual port.

- 5.2.3 **Introduction of Road Equivalent Tariff (RET)** - *'.....In 2007, the Scottish Government committed to lowering the cost of ferry travel to reduce the economic disadvantages experienced by remote island communities. It introduced the Road Equivalent Tariff (RET), which is a simple and transparent fares structure based on the equivalent cost of travelling by road. RET was introduced on a pilot basis to help the Scottish Government determine the impact of lower ferry fares on local communities and economies. After the pilot exercise, the Scottish Government did not set clear objectives for the roll-out of RET, including what benefits it expected to achieve or how these would be measured.....Transport Scotland has gradually rolled out RET since October 2008.....The full cost implications of RET are unknown and the impact has been mixed...'*

*'.....In 2016, which was the first full year of RET across the whole CHFS network, there was a nine per cent increase in passenger numbers and a 16 per cent increase in car numbers compared to 2015. **The largest increase, in absolute terms, of passenger and car numbers between 2015 and 2016 was on the Oban to Craignure route: Passenger numbers increased by 16 per cent to 644,800. Car numbers increased by 41 per cent to 162,300...***

*'.....There have also been unintended consequences of RET. For example, islanders told us that spaces were limited on some sailings, that **traffic congestion was being experienced on certain islands and road condition had declined**. The RET fares policy also means that CalMac is unable to adjust fares to help manage demand. For example, it cannot increase fares on sailings with high demand for spaces to encourage users to travel at a different time....'*

Notwithstanding the congestion and road condition issues outlined above, the increase in car numbers has given rise to car-marshalling problems at both Craignure and Oban. CMAL is addressing the Oban car-marshalling issue, whilst the Council is looking to extend the car marshalling area at Craignure.

- 5.2.4 **Ferry Freight Fares** – *'.....Transport Scotland has been reviewing and discussing freight fare options since 2014. The aim is to introduce a consistent freight fare structure across the Transport Scotland network which means that **costs will increase on some routes and decrease on others**. Depending on the route, it may mean that additional sailings or vessels are*

required to meet demand, or that Transport Scotland loses custom to commercial operators on routes where its fares are increased.'

Of the Argyll and Bute communities which would be negatively impacted, the most significantly affected island communities would be Coll and Tiree. The Council has received a letter from NFU Scotland outlining their 'significant concerns' with regard to a proposal, contained within the review, that any existing ferry-related discounts should come, in future, directly as support from the Scottish Government Department with policy responsibility for that sector i.e. not through ferry freight fares.

- 5.2.5 **Condition of harbours** – *'.....Although Transport Scotland has information on the condition of CMAL's harbours, it does not collate details on the condition of more than half (33) of the harbours that its services operate from. The condition of these harbours is fundamental to operating ferry services safely and efficiently. It also has financial implications for Transport Scotland. It is therefore important that Transport Scotland collates this information and builds it into its long-term operational and investment plans.....'*

Argyll and Bute Council has produced a 10 year Asset Management Plan which identifies works required at all of the Council's 39 piers and harbours – main ferry ports used by Calmac services included. Council officers arrange inspections, and meet with other interested parties on a regular basis, to ensure that the plan meets the future needs of the service. Regular meetings take place with officers from Transport Scotland, CMAL, Calmac and the Council to discuss future developmental issues.

- 5.3 **Recommendations** - the main recommendations outlined in the audit report are that Transport Scotland should:-

- 5.3.4 *as part of its Strategic Transport Projects Review, develop a Scotland-wide, long-term strategy for its network of subsidised ferries. This should take into account progress already made against the Ferries Plan and proposed developments to its ferry operations,*
- 5.3.5 *set out its intended benefits of subsidised ferry services, how these contribute to National Outcomes and how these will be measured, monitored and reported. It should then consider how this information could be used to inform operational and financial decisions and to demonstrate that ferry services are value for money,*
- 5.3.6 *include an assessment of the long-term affordability of its spending on services and assets. This should take into account the level of service required, the condition of assets and the need for capital investment,*
- 5.3.7 *set out how its spending will be prioritised across its network,*
- 5.3.8 *be monitored regularly to ensure it is on time and on budget,*

- 5.3.9 *be reviewed regularly to ensure it remains relevant and affordable,*
- 5.3.10 *ensure that it has adequate resources to develop, monitor and report against its long-term ferries strategy,*
- 5.3.11 *improve the transparency of decision-making for ferry users. This may include streamlining and formalising how it consults with and involves ferry users, by giving specific user groups a formal remit to comment on operational and policy matters,*
- 5.3.12 *improve its approach to procuring ferry services. This should include: ensuring that procurement teams include staff with procurement qualifications and experience of the ferry sector,*
- 5.3.13 *apply lessons from previous procurement exercises,*
- 5.3.14 *build in sufficient time to prepare important project documentation, such as business cases,*
- 5.3.15 *ensure that contract specifications are accurate, up to date and clear to potential bidders,*
- 5.3.16 *provide bidders with clear, good-quality and timely data to allow them to make informed bids,*
- 5.3.17 *strengthen its contract management arrangements by: ensuring there is a sufficient number of people, with the right expertise, to effectively manage ferry contracts,*
- 5.3.18 *involve the contract management team in ferry procurement exercises to inform its understanding of contract requirements,*
- 5.4 Lastly, and in addition to the above, a further recommendation is that Transport Scotland, along with Caledonian Maritime Assets Limited (CMAL) and the ferry operators, should:
- *better communicate their roles, responsibilities and accountabilities to improve customers' and stakeholders' understanding.*
- 5.5 Clearly, a number of the points highlighted in the report, and recommendations made therein, will lead to detailed discussion between Council officers and colleagues in Transport Scotland (TS), Calmac and CMAL. Much work has already been carried out by Council officers, in terms of: asset management planning; financial planning; ongoing engagement with opposite numbers in TS, Calmac, CMAL; consultation with community groups and users of marine facilities; and engagement with Members through the Harbour Board. The findings of the audit report will undoubtedly provide a sound foundation for ongoing and future discussions.

6.0 CONCLUSION

6.1 The Audit Scotland report on Transport Scotland's ferry services highlights a number of issues and, ultimately, makes a number of recommendations. Many of the issues highlighted in the report could have consequential effects on services provided by Argyll and Bute Council. Council officers will continue to engage with their counterparts in Transport Scotland, CMAL and Calmac to ensure, where appropriate, that full cognizance is given to recommendations made in the report.

7.0 IMPLICATIONS

7.1	Policy	Considered to be none directly arising from this report.
7.2	Financial	Fees and charges will have to increase to fund the Council's Marine Asset Management Plan.
7.3	Legal	Considered to be none directly arising from this report.
7.4	HR	Considered to be none directly arising from this report.
7.5	Equalities	Considered to be none directly arising from this report.
7.6	Risk	Asset management planning reduces the risk of having to repair and maintain existing infrastructure.
7.7	Customer Services	Continued consultation with local communities.

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