

Minister for Transport and the Islands

From: [REDACTED]
AMFC
26 October 2017

FERRY SERVICES PROCUREMENT POLICY REVIEW

Value for Money

7. In publishing their report on Transport Scotland's Ferry Services, Audit Scotland's Director of Performance Audit and Best Value, said:

"With so many developments ahead, Transport Scotland needs to make important spending decisions. Its future investment priorities must be based on ferry users' needs and good information on the benefits that services provide."

8. Furthermore, the 5th bullet point under Paragraph 116 of Audit Scotland's report recommends that:

"..... While the (Gourock-Dunoon ferry service) tender exercise is currently paused, it is important that Transport Scotland considers the value for money of providing financial support for this route"

From: [REDACTED]
Sent: 13 November 2017 16:58
To: Minister for Transport and the Islands <transportminister@gov.scot>
Cc: [REDACTED]
Subject: Telecon on GDFS - 15 November

[REDACTED]

Further to [REDACTED] submission of 26 October, and in advance of ferry officials' telecon with Mr Yousaf on Wednesday 15 November, I attach a few bullet points which may help shape the format of that discussion.

Kind regards

[REDACTED]
Ferries Unit
AMFC

DOCUMENT 3

**AMFC
Ferries Unit
30 November 2017**

Cabinet Secretary for Rural Economy and Connectivity
Minister for Transport and the Islands

**GOUROCK-DUNOON FERRY SERVICE AND DRAFT BUDGET 2018-19
FURTHER ADVICE REQUESTED**

Priority

2. Urgent – an early response is required to inform:

- the findings and publication of the Interim Report on the future approach to the procurement of ferry services, which was due for publication in the Autumn; and
- the Draft Budget 2018-19, publication of which is scheduled for 14 December.

3.

Ministers subsequently concluded that the service should be tendered, as outlined in the Contract Notice published on 13 July 2016:

- a 12-year public service contract for a subsidised passenger service;
- two vessels of a minimum 40 metres in length, providing a half hourly service; and
- an option for bidders to provide a commercially viable vehicle carrying service, subject to clear financial controls that avoid any cross-subsidisation from the subsidised passenger element.

4. Although the Contract Notice did not set the service timetable, the supporting news release referred to continuation of the current half-hourly service.

12. Ministers are requested to [REDACTED] should be taken forward and subsequently set out in the Interim Report on the future approach to the procurement of ferry services, initially due for publication in the Autumn.

[REDACTED]
Ferries Unit
[REDACTED]

ANNEX C

4. The Audit Scotland report on ferry services makes a direct reference to Gourock-Dunoon, with particular attention to value for money. An extract from the report is provided below. Value for money was also raised at Audit Scotland's appearance before the Public Audit and Post legislative Scrutiny Committee on Thursday 23 November.

5. The direct reference by Audit Scotland concerns the "value for money of providing financial support for this route in the context of the new vessels", [REDACTED]

Extract Audit Scotland Report (page 50)

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. In 2013, Transport Scotland commissioned consultants to estimate the cost, which ranged from £3.0 million per passenger vessel to £6.0 million per passenger/vehicle vessel. In January 2017, DML estimated this could cost in the region of £25 million to £30 million per vessel
- falling passenger numbers since 2007

Official Sensitive

- 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.



FOR DECISION


IDM(17)

INVESTMENT DECISION MAKING BOARD

Paper Title: **Gourock Dunoon Ferry Service**

Value for Money

- 7.7 A Steering Group, chaired by various Ministers, including the First Minister in her previous role as Deputy First Minister, and Mr Mackay in his previous role as Minister for Transport and Islands, commissioned a Feasibility Study by MVA Consultants. The MVA study specified a minimum vessel specification of 40 metres in length, applicable to both passenger and passenger/vehicle vessels, to deliver the required levels of service resilience and reliability.


AFMC – Ferries Unit
9 February 2018

From: [REDACTED]
Sent: 21 March 2018 21:44
To: [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
Subject: RE: Gourock Dunoon Ferry Services - IDM Approval to Issue ITT - Additional Information - 28 February 2018

[REDACTED]

To follow up on discussion at the IDM [REDACTED]
[REDACTED] I would advise the following with regard to value for money [REDACTED]
[REDACTED]

4. With regard to the responsibilities of the Accountable Officer as set out in the Scottish Public Finance Manual <http://www.gov.scot/Topics/Government/Finance/spfm/Accountability/aomemooother> In particular the AO responsibilities include the following:

3.1.6. ensure that, in the consideration of policy proposals relating to the resources for which you have responsibilities as Accountable Officer, all relevant financial considerations, including any issues of propriety, regularity or value for money, are taken into account, and where appropriate brought to the attention of the body;

Value for Money

7. In publishing their report on Transport Scotland's Ferry Services, Audit Scotland's Director of Performance Audit and Best Value, said:

"With so many developments ahead, Transport Scotland needs to make important spending decisions. Its future investment priorities must be based on ferry users' needs and good information on the benefits that services provide."

8. Furthermore, the 5th bullet point under Paragraph 116 of Audit Scotland's report recommends that:

"..... While the (Gourock-Dunoon ferry service) tender exercise is currently paused, it is important that Transport Scotland considers the value for money of providing financial support for this route"

The Q&A provided by ██████████ to the Minister on 14th December references value for money considerations and states that

Value for Money

- There is some evidence that tendering can present different creative and innovative service solutions. Any potential direct award to an in-house company would need to include mechanisms to deliver similar levels of continuous innovation and service delivery improvement.
- A direct award to an in-house operator, in full compliance with the Teckal doctrine and the State aid rules, is capable of delivering similar levels of value for money to that which might be obtained from tendering.
- A direct award to an in-house operator would avoid the high costs of tendering, allowing savings from the tendering process and operator returns to be reinvested in public services.
- A direct award would also allow longer-term investment planning.

Paragraph 116 of the Audit Scotland – Transport Scotland’s Ferry Services Report contains the following.

- 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. In 2013, Transport Scotland commissioned consultants to estimate the cost, which ranged from £3.0 million per passenger vessel to £6.0 million per passenger/vehicle vessel.¹⁹ In January 2017, DML estimated this could cost in the region of £25 million to £30 million per vessel²⁰
 - 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.

Official Sensitive

Transport Scotland
7th Floor
Buchanan House
58 Port Dundas Road
Glasgow
G4 0HF

From: [REDACTED]
Sent: 25 April 2018 12:01
To: Minister for Transport and the Islands <transportminister@gov.scot>
Cc: Cabinet Secretary for the Rural Economy and Connectivity <CabSecREC@gov.scot>; Cabinet Secretary for Finance and the Constitution <CabSecFC@gov.scot>

[REDACTED]

Subject: Urgent Ministerial Submission - Gourock Dunoon Ferry Service Value for Money and Financial Implications- 25 April 2018
Importance: High

P/S Minister for Transport and the Islands

I attach an **urgent** submission about Value for Money and financial implications associated with the ongoing tender for the Gourock Dunoon Ferry Service.

<<Ministerial Submission - GDFS Value for Money - 25 April 2018 (2).docx>>

Kind regards

[REDACTED]

Ferries Unit – AMFC

Minister for Transport and the Islands

From: [REDACTED]
Ferries Unit

25 April 2018

GOUROCK DUNOON FERRY SERVICE

Purpose

2. This advice has been prepared in conjunction with Transport Scotland Finance and cleared by Scottish Government Finance [REDACTED]

Priority

4. **Urgent** – [REDACTED]
[REDACTED]
the award of contract and start-up period must be completed by 20 January 2019 when the current contract expires. [REDACTED]

7. Following consideration of the 30 November submission, the Minister confirmed that the paused tender should be restarted as soon as practicable [REDACTED]

European Maritime and State aid Regularity Requirements

8. In relation to the continued provision of the Gourock Dunoon town-centre ferry service, the European Commission's 2009 decision on subsidies for maritime transport services in Scotland found, *inter alia*, that:

(272) The United Kingdom has provided credible information on the adequacy of a SGEI for passenger transport on this route. While they recognise that McGill's buses and Western Ferries do provide a 'through' service for foot passengers on a very limited number of sailings, their characteristics in terms of frequency, convenience, travel time, transport integration, reliability and access for passengers mean that they are not substitutable to the service provided by CalMac. Thus, there is a sound economic and social justification for public support for a town centre to town centre passenger service.

(277) Operators entrusted with public service obligations can also develop unsubsidised commercial activities. Where they do carry out commercial activities, they must meet certain requirements, such as separation of accounts, an adequate allocation of common costs and the absence of cross-subsidisation between the two types of activities.

(278) Provided that these requirements are met in the present case, the Commission cannot impose that the SGEI be provided via a passenger-only vessel.

(306) Western Ferries claimed that a passenger-only service based on a passenger-only vessel would save taxpayers' money by reducing the amount of the annual subsidy to CalMac. However, Article 86(2) of the Treaty does not require the Member State to choose the most cost efficient way of delivering the public service.

[REDACTED]

(314) In order to ensure compatibility of the public service for this route with Article 86(2) of the EC Treaty, the implementation needs to take place according to the following requirements: the tender and the subsequent public service contract must be launched within a reasonable time period; must contain a clear and precise definition of the public service obligations; must provide for a full and detailed entrustment of the public service provider; must contain appropriate safeguards for preventing over-compensation, cross-subsidisation and anti-competitive behaviour (including the obligation to consult publicly interested parties on major changes to the public service remit) and contain clear provisions on cost allocation and separation of accounts.

9. The tender has been developed in line with European maritime, procurement and State aid regulations, and reflects the requirements set out in the Commission's 2009 Decision.

[REDACTED]

Financial Affordability and Value for Money Implications

10. The Minister is requested to give additional consideration to the financial affordability and value for money implications associated with the future delivery of the ferry service, which has been subject to public comment by both Audit Scotland and the Public Audit and Post-legislative Scrutiny Committee. Accordingly, it is important that these are given due consideration by Ministers and equally by the Accountable Officer in providing advice to Ministers on the proposed procurement and the prospective outcome. **(Annex A provides further background.)**

[REDACTED]

Ferries Unit

[REDACTED]

Value for Money Implications

6. Two forty-metre vessels are required to deliver the levels of service performance and reliability within the prevailing sea conditions, as confirmed by the 2013 MVA report. [REDACTED]

7. Although the MVA report provides justification for a technical specification that requires two forty-metre vessels to meet the operational needs of the service, [REDACTED]

8. Audit Scotland's report on Transport Scotland's Ferry Services made direct reference to the Gourock-Dunoon service, with particular attention to value for money in the context costs associated with the tendering of two 40 metre vessels:

Extract Audit Scotland Report (page 50)

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. In 2013, Transport Scotland commissioned consultants to estimate the cost, which ranged from £3.0 million per passenger vessel to £6.0 million per passenger/vehicle vessel. In January 2017, DML estimated this could cost in the region of £25 million to £30 million per vessel*
- *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.*

9. Value for money was also raised at Audit Scotland's appearance before the Public Audit and Post legislative Scrutiny Committee on 23 November 2017 and again at Transport Scotland's appearance on 1 February 2018.

10. Audit Scotland's concerns, relate to the "value for money of providing financial support for this route". These concerns arise in the context of the cost of the new vessels, [REDACTED]

12. In addressing Audit Scotland's concerns, it should be noted that:

[REDACTED]

[REDACTED]

[REDACTED]

- The successful commercial operator on the adjacent route delivers a different out-of-town service to that from a regular passenger ferry service between Gourock and Dunoon town centres. This was considered by the European Commission in 2009, when the Commission concluded that the Western Ferries service was *"not substitutable to the service provided by CalMac and that there is a sound economic and social justification for public support for a town centre to town centre passenger service."*