

Note following Ministerial discussion and policy submission

From: Sent: 5 Dec 2018 18:03

To: "Minister for Energy, Connectivity and the Islands" ; "Cabinet Secretary for Transport, Infrastructure and Connectivity"

Cc: [Redacted]

Subject: FW: Ministerial Submission - Future Arrangements for Gourock Dunoon Ferry Service - 16 Nov 2018

Minister for Energy, Connectivity and the Islands Cabinet Secretary for Transport Infrastructure and Connectivity

This note follows my 16 November policy submission (attached for ease of reference) and records the outcome of discussions between Mr Wheelhouse and ferry policy officials on Tuesday 4 December. During that discussion, the Minister confirmed that the currently paused tender for the Gourock Dunoon Ferry Service should be cancelled and responsibility for a passenger-only ferry service transferred to the Clyde and Hebrides contract on a permanent basis. Upon transfer, CalMac would continue to operate the current two vessel half-hourly service under the CalMac brand. [Redacted]

[Redacted]

The decision will be announced by means of a Government Inspired Question, a press release and letters to the Chairs of the Rural Economy and Connectivity Committee, the Public Audit and Post-legislative Scrutiny Committee, the leader of Argyll and Bute Council, the leader of Inverclyde Council, Constituency and Regional MSPs, MPs, the unions, the Dunoon Gourock Ferry Action Group and the Cowal Transport Forum. Follow up meetings will be arranged with key stakeholders.

To mitigate the impact of the announcement, we would state our intention to review future passenger vessel requirements, improve passenger harbour infrastructure and introduce an e-vehicle car club.

CalMac initially advised that an announcement would have to be made by Monday 10 December if they were to complete all the necessary arrangements for the transfer of the ferry service before the current Gourock Dunoon contract ends. They have since advised that although there is very little room for further manoeuvre, an announcement by 21 December would still be achievable.

Confirmed Actions

The Minister confirmed that officials should therefore proceed as outlined above, that is:

- the currently paused tender is cancelled;
- responsibility for a passenger-only ferry service is transferred to CalMac on a permanent basis under provisions set out in the Clyde and Hebrides contract;
- the service will constitute the current two-vessels operating to a regular half-hourly timetable;

- following transfer to CalMac, consideration will be given to future passenger vessel and service requirements;
- the announcement has to be made by 21 December - or earlier.

[Redacted]

[Redacted]

Ferries Unit AMFC

Ministerial Submission on future arrangements for Gourock-Dunoon ferry service

Minister for Energy, Connectivity and the Islands

[Redacted]
Ferries Unit
AMFC

6 November 2018

FUTURE ARRANGEMENTS FOR THE GOUROCK DUNOON FERRY SERVICE

Purpose

1. As noted in TS Finance's submission of 8 November 2018, this submission covers the financial and policy implications of recent 2019-2020 bi-lateral budget discussions, specifically the future levels of financial support for the Gourock Dunoon ferry service.
2. The Minister is asked to consider the financial and policy implications, set out at Annexes A and B respectively, [Redacted]
3. The Minister is asked to advise which of the [Redacted] options should be taken forward for further consideration, as part of the 2019-2020 budget allocation.
4. [Redacted]

Priority – Urgent

5. In the context of budget deliberations, this is considered an urgent submission. Furthermore, the current contract ends on 20 January 2019 [Redacted]

Background

6. [Redacted]
7. Audit Scotland published its report on Transport Scotland's Ferry Services on 19 October 2017. Audit Scotland recommended that, while the tender exercise is paused, Transport Scotland should consider the value for money of providing financial support for the route. Value for money was further 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. An extract of Audit Scotland's comments is attached at Annex C.
8. At that point in time, there was no indication that the Scottish Ministers would consider withdrawing all financial support from the route. Indeed, the Scottish Ministers' continued commitment to the Gourock Dunoon Ferry Service was set out in the Government's Programme for Scotland 2017-2018, which stated:

“..... we will continue with a number of initiatives to further enhance and improve Scotland's ferry services, including supporting the town-centre to town-centre Gourock - Dunoon ferry service”

9. More recently, the Chair of the Rural Economy and Connectivity Committee wrote to the Cabinet Secretary for Transport, Infrastructure and Connectivity on 31 October 2018. The letter covered the Committee's pre-budget scrutiny on the strategic investment for the Clyde and Hebrides ferry services. It is worth noting that any decision to transfer the Gourock Dunoon ferry service to CalMac, under provisions set out in the existing Clyde and Hebrides contract, would bring the ferry service into the scope of the Committee's consideration. A copy of the Committee's letter is attached at Annex D and officials will shortly forward a detailed response for the Cabinet Secretary's and your consideration.

Presentation and Handling

10. [Redacted]

Conclusion

11. Budget deadlines are urgent. Also, the current contract ends on 20 January 2019 and a decision on the future of the Gourock Dunoon ferry service is required by 10 December 2018 to facilitate any transfer to CalMac. [Redacted]

12. Mindful that 10 December is the latest date by which CalMac can facilitate a transfer of the Gourock Dunoon ferry service to the Clyde and Hebrides contract, the Minister is asked to consider the financial and policy implications, set out at Annexes A and B respectively [Redacted]

13. [Redacted]

[Redacted]
Ferries Unit
AMFC
[Redacted]

16 November 2018

COPY LIST AND ANNEXES BELOW

Cabinet Secretary for Transport, Infrastructure and Connectivity
Cabinet Secretary for Finance, Economy and Fair Work
Cabinet Secretary for Government Business and Constitutional Relations

DG Economy
PS/Transport Scotland Roy Brannen, CE Transport Scotland
TS Directors
[Redacted]

FUTURE ARRANGEMENTS FOR THE GOUROCK DUNOON FERRY SERVICE

ANNEX A - FINANCIAL IMPLICATIONS

Budget Allocation 2019-20

1. The forecast expenditure for the Gourock Dunoon ferry service for 2019-20 is £[Redacted] million. This is based on the existing two passenger vessels operating to a half-hourly timetable. The allocation includes the costs of the winter deployment of the MV Coruisk, although this is generally viewed as cost neutral, given the reciprocal reduction in the costs of the vessel otherwise being deployed on the Clyde and Hebrides network. It also includes relief bus arrangements to transfer passengers to Western Ferries when the Argyll Ferries service is not operating due to adverse weather conditions.

2. It is not possible to predict with full accuracy the financial impact of the proposed changes without access to and detailed analysis of complex management information. However, estimated headline figures are set out the following table to illustrate some of the potential annual costs associated with [Redacted] options covered by this submission. [Redacted]

3. [Redacted]

Beyond 2019-20

4. [Redacted]

5. [Redacted]

ANNEX C

– EXTRACT FROM 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

FUTURE ARRANGEMENTS FOR THE GOUROCK DUNOON FERRY SERVICE

ANNEX D – RURAL ECONOMY AND CONNECTIVITY COMMITTEE PRE- BUDGET SCRUTINY



The Scottish Parliament
Pàrlamaid na h-Alba

Michael Matheson MSP
Cabinet Secretary for Transport,
Infrastructure and Connectivity

By e-mail only

Rural Economy and Connectivity
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31 October 2018

Dear Michael,

The Rural Economy and Connectivity Committee has chosen to carry out pre-budget scrutiny on the strategic investment required to support Clyde and Hebrides Ferry Services (CHFS). This letter is the output from that exercise and contains a range of recommendations to the Scottish Government.

As you will be aware the process by which the Scottish Parliament's committees undertake budget scrutiny has recently been updated to encompass a continuous cycle of year-round scrutiny. The Committee supports the principles of a budget process which is outcome focused with a view to addressing fiscal constraints and the practical impact of the increasing demand on public services. It is also supportive of a budget approach which will help to highlight the cumulative and interdependent impact of funding decisions across a range of policy areas. This is especially relevant for the rural economy.

The Committee's recent consideration of The Islands (Scotland) Act highlighted the value and contribution our island communities make. The Committee is aware of the vital importance of ferries as a lifeline service and a linchpin for the ongoing sustainability of island communities and economies.

As part of its scrutiny into CHFS investment the Committee issued an online survey which received 208 responses. It also received 13 detailed responses in response to

its call for views. These responses are available on the Committee's website. This letter will address the following points:

- Investment strategy for the fleet, including making vessels and port infrastructure more accessible, flexible and achieving value for money.
- Road Equivalent Tariff (RET)
- Current procurement and EU State Aid rules
- Community engagement in procurement and investment decisions

The Committee was told that the ferry service and its infrastructure have suffered from a lengthy period of underinvestment. It heard that the fleet is aging with some vessels approaching the end of their working life and that there are no spare vessels for contingency purposes. Highlands and Islands Transport Partnership noted that no new major vessels entered service between 2001 and 2011. The survey suggested that 85% of respondents did not think the current and proposed level of investment in new ferries and port infrastructure was sufficient to ensure resilience of the CHFS network in future years. CMAL stated that a significant increase in investment would be required to ensure a properly managed process of vessel replacement and improvements to ports infrastructure. It stated that annual investment of £30m for vessels and £20m for ports/harbours each year would be required, whereas over the last ten years it has received about half of that amount. These factors combine so that the network's resilience is significantly reduced leading to the types of significant service disruption which have been experienced by ferry users throughout 2018. Survey respondents also raised the following concerns in relation to investment and network resilience:

- Lack of vessel capacity for vehicles
- Investment not matching the Scottish Government's ambition for increased tourism
- Insufficient integration with mainland transport infrastructure

The Committee also heard some criticism that value for money is not being achieved. One witness stated in written evidence that productivity is "extremely poor and deteriorating. This is due to outmoded and costly ferry and terminal design and inefficient operational practice"¹.

Some witnesses and submissions were also critical of recent decisions to focus on the procurement of a small number of large vessels. Instead it was suggested that a greater number of smaller vessels would offer increased flexibility to operate within existing port infrastructures across the wider network. It was also suggested that the designs for the larger vessels are overly complex which means that they will take longer to build. Larger vessels may also require costly port infrastructure investment to allow the larger vessels to dock. It was also noted that the hybrid fuelling solutions being applied for new vessels, although more environmentally friendly, could be impractical.

Proposals were also put forward for how the service might be structured differently in future to better target investment and meet its priorities. It heard that there was

¹ Roy Pederson, Written Submission

potential to explore the use of shorter, cheaper routes using islands as land bridges. Suggestions were also made that crews should live in the island communities they serve on the basis that this would reduce ship capital and operating costs as staff wouldn't need to live aboard. It was suggested that introducing such changes could help contribute to the Scottish Government's objective of supporting and improving island economies. The Committee notes CalMac's assurance that the trade unions would be involved in future procurement and vessel design decisions.

In terms of port infrastructure, the Committee was told that there is a vast difference in the structure of ports across the west coast which means that certain vessels can only work certain routes. The Committee heard that "lock-on" linkspan design allows far greater flexibility, is more efficient and allows ships to be berthed with significantly fewer staff. It was also told that there are a variety of models of ownership of ports, with some being owned by CMAL and others by local authorities, private and trust operators. It heard that this variety in ownership and associated differences in port infrastructure contributes towards the inflexibility discussed above and reduces the ability to manage disruption effectively.

Audit Scotland has previously highlighted a lack of clarity over long-term investment in harbour improvements and the fact that Transport Scotland does not have a harbours investment plan. Evidence submitted by CalMac Ferries Ltd also indicates a lack of transparency over how harbours outside of CMAL ownership are reinvesting the revenue accrued from the collection of harbour dues.

The Committee is aware that the investment challenge has been intensified by the success of the Road Equivalent Tariff (RET) which has resulted in record numbers of people using ferry services. Whilst this success is welcomed, it does have consequences, such as increased wear and tear on ships, highlighting the limitations of port infrastructure which is not suited to dealing with increased vehicle movements. The increase in passenger numbers, can also have an impact on islanders who are often unable to book passage on ships and may be unable to respond to unplanned events or emergencies such as funerals or medical appointments on the mainland. The Committee is of the view that these issues must be addressed in terms of future investment plans.

The Committee is aware that Transport Scotland is due to evaluate the impact of RET in 2019 and that it will include an assessment of this initiative on ferry traffic, the customer experience, local economies as well as direct and indirect costs. With this in mind, the Committee would like to highlight to the Scottish Government that 86% of survey respondents did not think sufficient investment had been made in vessels and port/harbour facilities to handle increased passenger numbers since the introduction of RET.

In terms of the tendering process for Clyde and Hebrides Ferries the Committee heard that it is complex, inflexible, expensive and can discourage market entry by more efficient providers. It was told that countries such as Norway, where state aid rules also apply, routes can be tendered as smaller bundles and operators are entitled to own their own vessels and to innovate within certain parameters.

Concerns were also raised by some witnesses about the absence of a Scottish Transport Appraisal Guidance (STAG) appraisal in some ferry procurement decisions resulting in a lack of community engagement. It was also suggested that, in some cases where STAG appraisals have been undertaken, the results of these exercises have not been taken on board by those making investment choices.

Concerns were raised with the Committee about the aging fleet not being fully accessible to people with reduced mobility or families with young children in push chairs etc. Concerns were also raised about larger ferries requiring to be docked in deeper water meaning that longer walkways out to the ferries can be challenging for mobility. Written submissions from the RMT and Unite trades unions also noted the physical impact on staff required to assist passengers with mobility issues as well as the stress caused from frustrated customers when staff have multiple roles to complete while boarding and disembarking.

The Committee believes that better integration with different modes of public transport is vital, not only for accessibility and socio-economic equality but also for the environment. This would mean that more people would be able to leave the car at home reducing demand for vehicle capacity on ferries as well as allow people who may not be able to afford a car increased access. The Committee heard in its evidence on the Transport (Scotland) Bill that CalMac considers a new booking and ticketing system to be a fundamental step towards smart ticketing and greater transport integration. However, it needs support and funding from Transport Scotland to move this forward.

Overall, stakeholders expressed a desire for greater clarity on long term strategies. The Committee has reflected on the work of one of its predecessor committees, the Transport, Infrastructure and Climate Change Committee, which conducted an inquiry into ferry services in 2008. In its inquiry report it stated—

“The Committee also expects that the output from the Scottish Government’s ferries review will be a national ferries strategy that will set out proposals for a network of routes that will fully meet the needs and aspirations of the communities relying on them and that will encourage the long-term sustainability of the areas they serve. It is considered imperative, however, that these proposals are underpinned by a fully co-ordinated plan for the replacement or refurbishment of vessels and any necessary upgrades to or replacement of ports infrastructure. It is also considered essential that the strategy is supported by an implementation and delivery plan that includes a realistic and achievable programme of funding, which will give confidence to ferry users that it will be delivered.”

The Committee is aware that the result of that recommendation was the Ferries Review and the Ferries Plan. However, witnesses suggested that this plan has now been superseded and that a new one is necessary. The Committee notes that the recommendations made by the TICC Committee in 2008, in terms of the need for strategic planning backed up by appropriate investment, do not appear to have been acted upon and that these are just as relevant now as they were 10 years ago.

If islands communities are to be sustainable and are to develop economically, it is imperative that they have transport links that are reliable and efficient. Failure to appropriately fund ferries services could lead to declining island populations, difficulties accessing healthcare, education and basic services, increased living costs and difficulties for island businesses accessing and serving markets.

It is essential that lifeline ferry services deliver services that are truly fit for purpose and that fully meet the needs of island communities, business needs and tourism. The Committee therefore looks forward to the Scottish Government's response to the following recommendations—

Future strategic planning and associated investment

The Committee—

- Calls on the Scottish Government to respond to criticisms of the lack of resilience in the fleet and to the evidence that CMAL has received less than half the amount of funding required over the last 10 years.
- In anticipation of the budget publication in December, the Committee recommends that the Scottish Government prioritise ferries investment with a focus on procuring new vessels to reduce the average age across the fleet and improve service reliability.
- In conjunction with this budget prioritisation the Committee calls on the Scottish Government to conduct an urgent review of the Ferries Plan to meet current and future needs. The islands must be served by a network of routes that fully meet the needs and aims to meet the aspirations of communities and encourage their long-term sustainability. The Committee considers it to be imperative that these proposals are underpinned by a fully co-ordinated strategy for the staged, ongoing replacement or refurbishment of vessels and any necessary work to upgrade ports infrastructure. It is essential that the strategy is supported by a delivery plan that includes a realistic and achievable programme of funding, which will give confidence to island communities and other ferry users. This ongoing programme of funding should be clearly reflected in all future Scottish Government budgets.
- As part of this review, the Committee recommends that the Scottish Government reflect on whether it may be more appropriate to procure a larger number of smaller vessels as opposed to larger, more expensive vessels, to meet future needs on certain routes. Although, it notes suggestions made in evidence that larger vessels may be more environmentally friendly and require a lower number of crew members across the service.
- The Committee recommends that the review should consider provision across the whole network with a focus on removing bottlenecks to each island community. Consideration should be given to identifying the islands where capacity is particularly constrained across a full operating day.

Other port infrastructure issues

The Committee—

- Asks for further clarity on how the berthing dues which CalMac pays to Trust, local authority or privately-owned ports are used. It asks the Scottish Government whether it would be possible for any requirement to be placed on these organisations to invest a proportion of those dues in harbour maintenance and investment.
- Where port infrastructure works are required the Committee recommends that the Scottish government work with all harbour owners to encourage a standardisation of ferry berthing points to allow greater flexibility in the network and allow a wider number of vessels to access ports.

Road Equivalent Tariff

The Committee—

- Recommends that the Scottish Government reflect on the evidence the Committee has received about ways in which RET may be further improved and developed in future. For example, differential or dynamic pricing and the ability for islanders to take priority, particularly in emergency situations. This evidence should be taken into account as part of the 2019 RET review.
- Notes the record number of visitors to the islands and calls for the Scottish Government's views on ways in which the existing fleet and any additional resources might be used more flexibly and creatively to deal with freight and commercial business and alleviate pressure on regular passenger sailings.

Tendering and state aid rules

The Committee—

- Recommends that the Scottish Government review the procurement practice of ferry tendering in countries where state aid rules apply but they appear to be able to achieve a greater degree of flexibility and innovation to see what learning can be applied in Scotland.

Community engagement, equalities and improved customer experience

The Committee—

- Seeks confirmation from the Scottish Government on whether it intends to complete an Islands Impact Assessment on this year's budget.
- Notes that the islands, like the rest of Scotland, have an aging population. It is essential that any new Ferries Plan and investment strategy take the changing needs and demographics of the islands into account.
- Believes that comprehensive STAG appraisals as well as community and trade union engagement are essential when dealing with life line services. It recommends that it would be good practice to produce an easily accessible response to any public engagement which outlines

what will be taken forward as a result of the exercise and any mitigating actions that will be taken if the action which the community calls for is unable to be delivered.

- Believes that better transport integration should be prioritised as part of any future investment strategy as it would contribute to the achievement of a number of environmental, socio economic, accessibility and funding objectives.

The Committee looks forward to receiving your responses to the points it has raised.

Kind regards



Edward Mountain
Convener

Cost of vessels

Cost of Vessels In 2013 the MVA report estimated the costs of new vessels as £3 million for a passenger vessel and £6 million for a passenger/vehicle vessel. For the planned commencement of the services in 2019, Transport Scotland estimated the passenger vessels to cost between £4 million and £5 million each and the passenger/vehicle vessels between £8 million and £10 million. For budgeting purposes, the vessels were estimated at £5 million and £10 million respectively. The final cost would only be determined on receipt of final tenders. The cost allocation methodology for ensuring that there was no cross subsidisation between the subsidised passenger service and the commercial vehicle-carrying service was set at 50% as estimated in the MVA Report. This brought the cost of both the passenger vessel and passenger-vehicle vessel within the £5 million estimate. It was this vessel specification and the estimated £5 million cost per vessel that informed the Scottish Ministers' decision not to proceed with the G-D tender, not the £25 million to £30 million figure quoted by the previous CalMac Managing Director

Letter to DGFAG

Minister for Energy, Connectivity and the Islands
Paul Wheelhouse MSP



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| Susanna Rice
Chair DGFAG
By email: susannamccorry@hotmail.com

□

Your ref:

Our ref:

12 December 2018

Dear Susanna,

Gourock Dunoon Ferry Service

Earlier today, I answered a Government Initiated Question (S5W-20531) confirming cancellation of the Gourock Dunoon Ferry Service tender. I also confirmed that responsibility for the ferry service will transfer to CalMac from 21 January 2019, when the current Argyll Ferries contract comes to an end. Thereafter, CalMac will provide a passenger-only service under the terms of the Clyde and Hebrides Ferry Services contract. This will not include the transport of vehicles, in line with the State aid rules and the European Commission's Decision of 28 October 2009 on Subsidies to CalMac and [NorthLink](#) for maritime transport services in Scotland.

My decision to cancel the tender reflects the findings of Audit Scotland's Report on Transport Scotland's Ferry Services published on 19 October 2017. Audit Scotland recommended that, while the tender exercise is paused, Transport Scotland should consider the value for money of providing financial support for the route. The full text of Audit Scotland's recommendation is enclosed for your reference, as is a copy of my press release.

Having given full and careful consideration to the value for money implications associated with the future provision of the ferry service, I reached the conclusion that the most appropriate course of action would be to cancel the tender and transfer responsibility for a passenger-only ferry service to CalMac. This will ensure the continued provision of the ferry service, under provisions set out in the current Clyde and Hebrides contract, whilst providing reassurance to the staff and crew of Argyll Ferries about security of employment and associated terms and conditions.

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

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www.gov.scot



The decision was also taken in light of recent policy developments encouraging the use of public transport, the promotion of active travel and reduction in carbon emissions. In line with these developments, the ferry service will continue to provide a direct passenger link to the Gourock railhead for onward travel to Glasgow city centre. Harbour infrastructure will also, in due course, be upgraded to provide improved passenger facilities. Transport Scotland will also engage with the Argyll and Bute and Inverclyde Councils with a view to introducing a car-share scheme served by a fleet of e-vehicles and e-bicycles in both Gourock and Dunoon. I believe that these initiatives, complemented by the nearby commercial ferry service operated by Western Ferries (Clyde) Limited, which carries cars, buses and commercial vehicles, will provide a range of transport options that meet the needs of the local community, whilst providing best value for money to the taxpayer.

Following the transfer of responsibility to CalMac, further consideration will be given to future vessel and service requirements. This will ensure that the ferry service is best placed to deliver a safe, reliable, efficient and sustainable passenger service into the future.

I would, of course, be pleased to discuss the issues raised in this letter with you and representatives of ~~DGFAG~~, if that would be helpful.

Kind Regards

Paul Wheelhouse