

24 August 2022

**TO: TRANSPORT SCOTLAND INVESTMENT DECISION MAKING BOARD
FOR DISCUSSION / AGREEMENT ON 30 AUGUST 2022**

FERRIES - ADDITIONAL MAJOR VESSEL TONNAGE

PURPOSE

1. To provide an update on the potential options to accelerate investment in the major passenger and vehicle roll-on roll-off vessel fleet to support the CHFS network.
2. To seek approval to progress the Accountable Officer Template related to the funding of an additional two new major vessels of the same design as the recently awarded Islay vessel contract. Estimated costs, including allowance for related port works, are up to £115 million and this would be provided to CMAL by way of voted loan if approvals were confirmed following completion of their procurement exercise.
3. To note progress on the consideration of [out of scope] and confirm that further updates will be provided when discussions with CalMac and CMAL around technical and operational matters have been concluded, likely end September 2022.

PRIORITY - Urgent

4. Ministers have noted the urgency with which additional tonnage is required in the major vessel fleet and have asked for options to be presented before the end of August 2022.
5. Approval of funding for purchase and operation of two new Islay type vessels is required by end August or early September 2022 to enable CMAL to undertake an open procurement exercise from September 2022 for potential contract award before end 2022.
6. The two new Islay type vessels represent an opportunity that has arisen and as such this IDMB paper represents the Outline Business Case decision point – to proceed, with speed, to the procurement stage. The Strategic Case for intervention is well established and this paper presents the available evidence, at short notice, in line with OBC guidance.

BACKGROUND

7. Transport Scotland and Scottish Government recognise that the ongoing disruption to residents and businesses on our islands caused by a fully deployed major fleet, capacity constraints, breakdowns and vessel repairs on the Clyde and Hebrides network is unacceptable. These lifeline services play a critical role in supporting the economic, social and cultural development of remote and island communities.
8. Transport Scotland continues to work closely with CalMac Ferries Ltd. (CFL) and CMAL to resolve these often complex issues as efficiently as possible and to bring greater resilience across the network.
9. The average age of the major vessel fleet is around 24 years. It is clear that the age profile of the fleet means that acceleration of investment in major vessel tonnage is required to bring the average age to 15 years, this being the target for a planned asset management replacement strategy.
10. The Scottish Government announced investment of at least £580 million in ports and vessels in addition to the completion of MV Glen Sannox / Hull 802 to support and improve Scotland's ferry services, as part of the wider Infrastructure Investment Plan, on 4 February 2021. The funding allocations are welcome, but are known to represent less than is required to deliver all projects identified in the IIP, and the wider investment required in the fleet and associated shore side infrastructure.
11. MV Loch Frisa has been purchased, modified and introduced on the Craignure (Mull) – Oban route, Two new vessels for the Islay routes are currently under construction in the Cemre yard in Turkey, due for delivery in 2024 and 2025. {redacted} However, further investment is required.
12. New and second hand vessels entering the fleet will be procured and owned on behalf of Scottish Ministers by CMAL, who would act as procuring authority. The vessels will be funded by way of voted loan from Transport Scotland to CMAL for new vessels with potential for grant funding for second hand vessels.

ACCELERATED INVESTMENT OVERVIEW

13. Consideration of interim relief to the CHFS fleet such as the charter of the MV Pentalina are progressing through the AOT process. In parallel with this, ongoing discussion between TS, CMAL and CalMac has indicated that the only two options currently available for accelerating further investment in major tonnage for delivery within the current Infrastructure Investment Plan period (2021 to 2026) would be:
 - Construction of two further major vessels of the same design as the recently awarded Islay vessel contract at a cost of around £110 million and potential delivery in 2025.
 - [out of scope]

This investment would not obviate the need for additional tonnage in future years, in line with a long term vessel strategy which is being developed as part of the Islands Connectivity Plan.

14. {redacted}
15. CMAL has indicated that an open procurement process for two vessels of the same design as the recently awarded Islay vessels will save significant time associated with design and specification. It is also likely to result in the Cemre yard, which is currently under contract to build the first two vessels of this type, winning the work on quality, cost and timescales basis. If this is the case then Cemre may have available build slots to complete the two additional vessels for delivery within FY 2025/26. If these slots are not confirmed by end 2022 or the work goes to another yard then further new build major vessels may be deliverable until 2027/28 or beyond.

BUSINESS CASE APPROACH

16. To review the potential costs, benefits and risks of the available acceleration investments a business case approach has been undertaken. Due to the time and staff resource available to consider and present the options for consideration by TS IDM, TS AO, and Ministers the elements set out in the Transport Scotland guidance on business case development have been provided within this paper and related Annexes. This briefing and associated Annexes should be considered as the Outline Business Case with the Final Business Cases for any investment being completed when final costings are returned. This will be the final decision point.
17. {redacted}
 - {redacted}
 - Two new vessels for the Islay routes will be delivered in FY 2024/25 and both will be deployed on the Islay routes. This will allow two major vessels to be retired.

STRATEGIC CASE - All Options

18. Eight of the ten major vessels, serving the busiest and most demanding routes on the Clyde and Hebrides Ferry Service (CHFS) network, have reached or will reach normal life expiry (around 30 years depending on vessel design and type of use) within the next ten years. This is leading to increasing maintenance and operational costs, increased breakdowns and lengthier, more disruptive vessel outages.

OPTIONS REVIEW – Additional Islay type vessels

19. CMAL have identified a potential to accelerate investment in new tonnage through procuring two further vessels of the same design as the recently awarded Islay vessels. Vessels of this type could be deployed on the following

routes Subject to further berth fit assessments and completion of relatively minor modifications to address issues identified:

- Ullapool – Stornoway
- Skye Triangle Routes (Uig, Tarbert, Lochmaddy)
- Oban – Castlebay
- Islay Routes
- Arran Route (Troon – Brodick)

20. The route assessment discussions with CMAL and CalMac have concluded that the most suitable deployment at the present time would be for both vessels on the Skye Triangle routes. Subject to further review of berthing arrangements and potential short and longer term port works, these vessels could improve reliability and resilience of the links to North Uist and Harris, increase passenger, car and HGV capacity and support wider benefits for Harris and South Uist / Barra to the south.
21. Alternative deployment on Ullapool – Stornoway has been discounted at this stage due to potential over provision of capacity. Deployment of one or two vessels on the Arran route is discounted due to passenger capacity requirements on the Arran route and to minimise the routes which have LNG fuel requirements.
22. {redacted}

SOCIO-ECONOMIC CASE – Additional Islay type vessels

23. In addition to the major fleet age / replacement issues set out earlier in this paper, deck utilisation figures and demand forecasts show that the routes to the western isles are some of the most constrained on the network. Analysis of unconstrained demand forecasts for 2022 indicates during the peak nine week summer period, which brings a large proportion of the islands tourism income, that the Uig – Tarbert link has the highest deck utilisation under unconstrained demand forecasts of all major routes on the CHFS network, at 99% of available capacity. The Uig – Lochmaddy link has an unconstrained demand forecast of 83% in 2022 and the other major link to the north of the Skye Triangle route, Ullapool – Stornoway (Harris), is forecast at 87%.
24. **Key Benefits** include;
- A second vessel on the Skye Triangle routes would provide a dedicated service for Tarbet (Harris) and Lochmaddy (North Uist), something the North Uist and Harries Communities have been calling for for a number of years.
 - 48% increase in car/vehicle/freight capacity on the routes during peak summer period and 11% increase in winter compared to existing, enabling growth on islands. This would provide direct benefits to the Lochmaddy (North Uist) and Tarbert (Harris) routes and provide relief to other western isles routes which are also facing increasing vehicle deck capacity pressures by increasing overall capacity and alternative options.

- Increased reliability / resilience – two new vessels replacing existing ones over 25 years old, some approaching 40 years old. Two vessel summer service would provide immediate resilience if one vessel was to be taken out of service or deployed elsewhere.
 - Reduced vessel emissions – New vessels are more fuel efficient than the existing or potential vessels on the routes helping with the move toward more sustainable transport services by 2045. The Islay vessels are also designed with potential to change fuel type during mid-life extension works should alternatives such as ammonia or hydrogen become viable and practicable.
 - Shore power benefits for overnight berthing (air quality, noise, emissions).
 - Move towards more standardisation of the fleet with capability to deploy vessels and crew across major routes and better match demand / capacity. Longer term maintenance and technical support for vessel is also enhanced where components and supplies are more compatible across a number of vessels.
25. ***Fit with Policy*** of the overall fleet replacement programme is considered to be strong in terms of helping achieve the NTS Vision and Priorities and delivering the commitments set out in IIP. STPR2 Stage 2 Recommendation 24 proposes ‘Ferry vessel renewal and replacement and progressive decarbonisation’ to address the needs of rural and island communities by improving the resilience, reliability, capacity and accessibility of ferries.
26. {redacted}
27. ***Monitoring and Evaluation*** will be developed should the project proceed to procurement and engagement will be undertaken with communities on the detailed deployment plans and development of potential timetables.

COMMERCIAL CASE - Additional Islay type vessels

28. CMAL, as procuring authority, will undertake a robust procurement in line with relevant legislation and guidance. The robust tendering and assessment process will include appropriate advice from specialist legal, commercial and technical advisors. For the Shipbuilding Contract, the Baltic and International Maritime Council (BIMCO) “NEWBUILDCON” International Standard Shipbuilding contract will be used.
29. A full financial appraisal of options will be carried out, based on resource accounting and budgeting principles, including information on funding, budgeting over the life of the project and scheme cash flow.
30. Subject to agreement with IDMB and Ministers, voted loans of up to {redacted} to cover all costs relating to procurement of vessels. CMAL will include a full refund guarantee in the contract with the appointed shipyard and make robust arrangements to protect the investment over the course of the construction and delivery phase.

31. Subject to completion of appropriate design and planning, capital grants of up to {redacted} including appropriate optimism bias, will be made for the enabling port works and these will be closely managed by CMAL as the works progress.

MANAGEMENT CASE - Additional Islay type vessels

32. Subject to approval, the vessel element of the project would be progressed to award of contract stage and management plans, outlining the framework for managing risk, benefit realisation, post-project evaluation and the project as a whole will be developed based on the existing Islay vessel projects. Within the risk management framework all options available for risk mitigation throughout the course of construction and delivery will be considered. Suitable allowances have been made for remote and on site supervision.
33. A risk register for the vessels element and each of the port works will be drawn up to identify which party is responsible for each risk and these will also be combined to understand and manage the overall programme as a whole. A Benefits Realisation approach will also be developed as the projects progress to maximise positive outcomes and so that lessons learnt can be recorded and used on future vessel and port projects of this kind.

34. {redacted}

PROPRIETY

35. CMAL are the procuring authority and will follow all required legislation and appropriate guidance in completing the process for any purchase of second-hand or new build tonnage. Robust tendering and assessment processes would be undertaken by CMAL with appropriate advice from their specialist legal, commercial and technical advisors. For any Shipbuilding Contract, the Baltic and International Maritime Council (BIMCO) "NEWBUILDCON" International Standard Shipbuilding contract will be used.
36. {redacted}
37. TS Ferries Contracts and Projects team have co-ordinated the discussions with CMAL and CalMac and the Head of TS Ferries, {redacted}, is acting as SRO for the project. Due to the timescales for commercial decision making on potentially securing accelerated investment and delivery and available resources, a full consultation approach with island bodies, communities and businesses has not been undertaken in the usual manner. If contracts are placed for additional vessels community and wider stakeholder consultation will be progressed as part of refining deployment plans and potential timetables.
38. Following consideration by TS IDMB a version of this briefing and AOT will be submitted to TS AO, Permanent Secretary and Ministers for approval.

AFFORDABILITY

39. Transport Scotland budgets as part of the wider Infrastructure Investment Plan, February 2021. Scottish Government announcement of investment of at least £580 million in ports and vessels to support and improve Scotland's ferry services over the five years from 2021 to 2026.

40. {redacted}

VALUE FOR MONEY

41. Any tendering process for the new vessels would be undertaken through open procedure and in line with relevant legislation and guidance to ensure competitive prices and drive value for money. The overall project is considered necessary to meet Ministers ambitions to accelerate investment in additional tonnage, reduce the overall age of the fleet and therefore improve reliability and resilience by replacing vessels approaching 40 years' service.

ACCOUNTABLE OFFICER TEMPLATE

42. A draft Accountable Officer Template which captures all of the capital and revenue costs indicated for the proposed additional Islay vessels is provided in **Annex C**.

43. Approval will allow a contract to be secured for two vessels before the end of 2022.

44. {redacted}

DECISIONS REQUIRED FROM TS INVESTMENT DECISION MAKING BOARD

45. TS IDMB are invited to:

- Note the updates on the consideration [out of scope]
- Agree the Outline Business Case for CMAL progressing procurement of two further Islay class vessels, subject to agreement of funding from Ministers;
- Note the capital and resource costs set out within the Accountable Officer Template (**Annex C**);
- {redacted}

{redacted}

Ferries Contracts and Projects

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness

{redacted}, TS Ferries {redacted}, TS Ferries {redacted}, TS Ferries {redacted}, TS Ferries {redacted}, TS Ferries {redacted}, TS Ferries {redacted}, TS Procurement {redacted}, SG Finance {redacted}, TS Legal {redacted}, SG Legal {redacted}, TS Finance {redacted}, SG Finance {redacted}, SG Islands {redacted}, TS TSA {redacted}, TS TSA					
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ANNEX A Vessels and Deployment Routes – Overview

[out of scope]

NEW VESSELS – Additional Islay Class Vessels

CMAL currently have a contract from Cemre yard in Turkey to build two new vessels intended for the Islay routes. The vessels under contract are expected to be delivered in 2024 and 2025 and CMAL have indicated potential to procure a further two vessels to follow:



Length:	94.8 m
Breadth:	19.2 m
Draft:	4.0 m
Gross Tonnage:	6100 T
Fuel:	MGO only
Capacity:	100 cars (PCUs) 450 passengers

Potential Deployment Routes

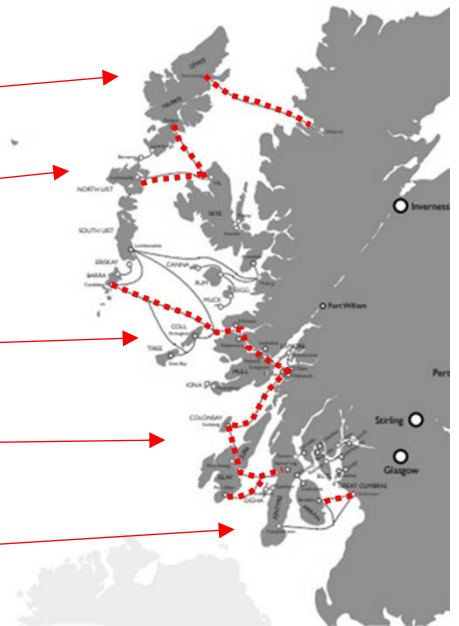
Ullapool – Stornoway

Skye Triangle Routes

Oban – Castlebay Route

Islay Routes

Arran (Ardrossan/Troon – Brodick)



| **ANNEX B**
{redacted}

ANNEX C

[out of scope]

22 December 2022

**TO: MINISTER FOR TRANSPORT
CABINET SECRETARY FOR NET ZERO, ENERGY AND TRANSPORT
DEPUTY FIRST MINISTER / CABINET SECRETARY FOR FINANCE**

FERRIES – ADDITIONAL MAJOR VESSEL TONNAGE – FINAL BUSINESS CASE

PRIORITY AND PURPOSE

46. **URGENT** – The Ministerial approvals to proceed with procurement of two additional ‘Islay Class’ vessels for deployment on the Skye Triangle routes allowed Caledonian Maritime Assets Limited (CMAL) to progress a single stage open tender process which closed on 08 December 2022. The CMAL review of tenders has resulted in identification of a preferred bidder. Agreement is required from Ministers to allow the contract to be finalised between CMAL and the preferred bidder.
47. To seek approval of funding for an additional two new major vessels of the same design as the recently awarded Islay vessel contract. CMAL have confirmed project capital costs, including allowance for related port works, are up to {redacted} This would be provided to CMAL by way of voted loans for the vessels and capital grants to CMAL and others for the of the relatively minor port works.
48. To seek approval to include additional future revenue costs in line with the identified deployment option for the two new vessels on the Skye Tringle routes at a cost of around {redacted} per annum. This would allow a two vessel summer service and a one vessel winter service to improve reliability, resilience and capacity on the routes from Uig to Tarbet (Harris) and Lochmaddy (North Uist) and improve the overall connections to the western isles and resilience in the wider fleet.

RECOMMENDATIONS

49. That the Minister for Transport, Cabinet Secretary for Net Zero, Energy and Transport and Deputy First Minister / Cabinet Secretary for Finance approve up to {redacted} funding and {redacted} funding from around Q4 2025 to deliver and deploy two new ‘Islay Class’ vessels on the Skye Triangle routes.
50. That Transport Scotland confirm funding for CMAL, as Procurement Authority, to agree the contract with the preferred shipbuilder.

CONTEXT AND ISSUES

51. Transport Scotland and Scottish Government recognise that the ongoing disruption to residents and businesses on our islands caused by a fully deployed major fleet, capacity constraints, breakdowns and vessel repairs on the Clyde and Hebrides network is unacceptable. These lifeline services play a critical role in supporting the economic, social and cultural development of remote and island communities.
52. Transport Scotland continues to work closely with CalMac Ferries Ltd. (CFL) and CMAL to resolve these often complex issues as efficiently as possible and to bring greater resilience across the network.
53. The average age of the major vessel fleet is around 24 years. It is clear that the age profile of the fleet means that acceleration of investment in major vessel tonnage is required to bring the average age to 15 years, this being the target for a planned asset management replacement strategy.
54. The Scottish Government announced investment of at least £580 million in ports and vessels in addition to the completion of MV Glen Sannox / Hull 802 to support and improve Scotland's ferry services, as part of the wider Infrastructure Investment Plan, on 4 February 2021.
55. An Outline Business Case for the two additional 'Islay Class' vessels was presented to the Transport Scotland Investment Decision Making Board on 25th August 2022. {redacted}
56. A briefing on the OBC work, TS IDMB feedback, Accountable Officer considerations, and further review of potential wider finance implications was submitted to Ministers on 29 September 2022. In response to the briefing Deputy First Minister agreed to CMAL progressing the procurement for two further Islay Class vessels. This was announced by the Minister for Transport through response to written parliamentary question S6W-11744 on 26 October 2022.
57. CMAL progressed a single stage open procurement through Public Contracts Scotland and was available to potential bidders from 27 October to 08 Dec 2022. CMAL have completed their checking and review process to determine a Preferred Bidder, which is due to be announced on 23rd December 2022.
58. The budget announcement on 15 December confirmed that resources would be made available to deliver the two additional vessels for services on the Skye Triangle routes.

BUSINESS CASE APPROACH

59. The original OBC work considered new build vessels [out of scope]
60. Due to the time and staff resource available to consider and present the options for consideration by TS IDMB, TS AO, and Ministers the elements set out in the Transport Scotland guidance on business case development were provided within an OBC paper, related Annexes and a draft AOT.

61. This briefing and associated Annexes now include updates on the previous OBC work, most notably the progress of the vessel procurement exercise and refinement of the operating costs, and should now be considered as the Final Business Case, with approval sought to allow CMAL to enter a contract with the Preferred Bidder for the two new vessels.
62. To enable decisions to be made in constrained timescales assumptions around other ongoing projects and areas of work have been made. These assumptions and potential wider benefits/costs/risks will continue to be tested through ongoing work on a number of related projects to ensure the most efficient use of available resources as new vessels and port infrastructure come on line between now and 2025/26. Key assumptions are:
- MV Glen Sannox and Hull 802 will be delivered in FY 2023/24 and both will be deployed on the Arran route. These deployments will enable a resilience vessel to be retained for the major fleet and may also allow a second vessel to be deployed on the Skye Triangle over the 2024 summer timetable period and enable more flexibility on the winter maintenance / dry-dock period.
 - Two new vessels for the Islay routes will be delivered in FY 2024/25 and both will be deployed on the Islay routes. This will allow one or two major vessels to be retired through a cascade appraisal.

STRATEGIC CASE

63. Eight of the ten major vessels, serving the busiest and most demanding routes on the Clyde and Hebrides Ferry Service (CHFS) network, have reached or will reach normal life expiry (around 30 years depending on vessel design and type of use) by 2030. This is leading to increasing maintenance and operational costs, increased breakdowns and lengthier, more disruptive vessel outages.
64. Work is ongoing as part of the Islands Connectivity Plan (ICP) to develop and publish a long term vessels and port investment plan. The long term investment plan and wider ICP work is expected to be continue over the course of 2023 and the updates from this and other vessel and port business cases will be used to inform the outputs.

OPTIONS REVIEW

65. Following requests for Ministers, CMAL identified a potential to accelerate investment in new tonnage through procuring two further vessels of the same design as the recently awarded Islay vessels. Vessels of this type could be deployed on the following routes Subject to further route and berth fit assessments and completion of relatively minor modifications to address issues identified:
- Ullapool – Stornoway
 - Skye Triangle Routes (Uig, Tarbert, Lochmaddy)
 - Oban – Castlebay
 - Islay Routes

- Arran Route (Troon – Brodick)
66. The route assessment discussions with CMAL and CalMac have concluded that the most suitable deployment at the present time would be for both vessels on the Skye Triangle routes. Subject to completion of relatively minor short and longer term port works, these vessels could improve reliability and resilience of the links to North Uist and Harris, significantly increase car and HGV capacity and support wider benefits for Harris and South Uist / Barra to the south.
 67. Alternative regular deployment on Ullapool – Stornoway has been discounted at this stage due to potential over provision of capacity on this route. Deployment of one or two vessels on the Arran route is discounted due to passenger capacity requirements on the Arran route and to minimise the routes which have LNG fuel requirements.

FINANCIAL CASE

68. **Capital Costs** of the two new vessels are expected to be up to {redacted}, including:
 - {redacted}
69. The major improvements underway at the three Skye Triangle ports will deliver almost all of the works required to enable deployment of Islay type vessel on the routes but an allowance of up to {redacted} has been made for specific changes to accommodate berthing, mooring, vessel access points etc. and additional shore power provision for a two vessel summer service.
70. The total capital cost estimate therefore remains the same as that provided at OBC stage at up to {redacted}. As part of the contract conclusion with the Preferred Bidder CMAL will look to agree some cost reduction but these cannot be assumed at this stage.
71. **Revenue Costs** estimates for operating the new vessels on the preferred option Skye Triangle routes have been reviewed and can now be reduced from the up to {redacted} figure presented at OBC stage. For simplicity and to allow a direct comparison to current operating costs on the route a two vessel summer service and single vessel winter service costing has developed by CFL for the new vessels.
72. Costs are based on a two vessel summer service providing two return trips from Uig to Lochmaddy and Tarbert. This is an increase on the current provision as the single vessel service can only provide alternating trips to Lochmaddy and Tarbert. The new vessels also have a larger capacity for cars/hgvs meaning the vehicle capacity on the routes is increased by 48.1% during the peak season.
73. During the winter period, one of the vessels will be removed from the routes and used as overhaul / maintenance cover. The new vessel is assumed to provide the same timetable as existing winter period but will provide 11.1% increased capacity.

74. The existing and future estimated annual operating costs of the vessels on the Islay routes under the above operating assumptions is shown below, and further information is provided in **Annex B**:

Service Operating Costs – Per Annum (2022 prices)	Cost p/a
Existing Service MV Hebrides – One Vessel	{redacted}
Proposed Islay 3 and Islay 4 – Two Vessels (Summer)	{redacted}
Additional Operating Cost	{redacted}

Summary of Route Operating Costs

75. These indicative costs are presented on a like for like basis and are the annual operating costs for the services on the Skye Triangle routes. These are full year costs, including costs for both vessels in the winter period.
76. Within the above, there will be comparative fuel savings from the more efficient hull design and propulsion technology (total fuel and lubricants costs being around {redacted} (over 10%) lower per annum in total for the two new vessels compared to the existing single vessel) but overall additional {redacted} annual operating costs primarily from the introduction of a second vessel, higher charter fees payable from CalMac to CMAL under the terms of the existing CHFS contract (due to the new and more valuable vessels, around {redacted} per vessel, {redacted} per annum, for the new vessels compared to around {redacted} per annum for the charter of the MV Hebrides) and higher berthing charges (due to the higher tonnage and additional sailings).
77. These costs will be partly offset by additional income from growth in trips on the routes (recently growing at around 5% per year), enhanced further by the larger vessel vehicle carrying capacity, which is expected to support and facilitate growth in the economies of the islands served. Further work is required on this element and will be considered when full timetables and demand and capacity data is considered closer to the time of deployment, no additional income is assumed in the figures presented above or in the AOT.

SOCIO-ECONOMIC CASE

78. In addition to the major fleet age / replacement issues set out earlier in this paper, deck utilisation figures and demand forecasts show that the routes to the western isles are some of the most constrained on the network. Analysis of unconstrained demand forecasts for 2022 indicates during the peak nine week summer period, which brings a large proportion of the islands tourism income, that the Uig – Tarbert link has the highest deck utilisation under unconstrained demand forecasts of all major routes on the CHFS network, at {redacted} of available capacity. The Uig – Lochmaddy link has an unconstrained demand forecast of {redacted} in 2022 and the other major link to the north of the Skye Triangle route, Ullapool – Stornoway (Harris), is forecast at {redacted}
79. **Key Benefits** include;
- A second vessel on the Skye Triangle routes would provide a dedicated service for Tarbet (Harris) and Lochmaddy (North Uist), something the North Uist and Harries Communities have been calling for for a number of years.

- 48% increase in car/vehicle/freight capacity on the routes during peak summer period and 11% increase in winter compared to existing, enabling growth on islands. This would provide direct benefits to the Lochmaddy (North Uist) and Tarbert (Harris) routes and provide relief to other western isles routes which are also facing increasing vehicle deck capacity pressures by increasing overall capacity and alternative options.
- Increased reliability / resilience – two new vessels replacing existing ones over 25 years old, some approaching 40 years old. Two vessel summer service would provide immediate resilience if one vessel was to be taken out of service or deployed elsewhere.
- Reduced vessel emissions – New vessels are more fuel efficient than the existing vessels on the routes helping with the move toward more sustainable transport services by 2045. Combined fuel and lubricant costs for the two new vessels are expected to be over 10% lower than the existing single vessel costs. The Islay vessels are also designed with potential to change fuel type during mid-life extension works should alternatives such as ammonia or hydrogen become viable and practicable.
- Shore power benefits for overnight berthing (air quality, noise, emissions).
- Move towards more standardisation of the fleet with capability to deploy vessels and crew across major routes and better match demand / capacity. Longer term maintenance and technical support for vessel is also enhanced where components and supplies are more compatible across a number of vessels (including reduced stock inventory).

80. ***Fit with Policy*** of the overall fleet replacement programme is considered to be strong in terms of helping achieve the NTS Vision and Priorities and delivering the commitments set out in IIP. STPR2 Stage 2 Recommendation 24 proposes 'Ferry vessel renewal and replacement and progressive decarbonisation' to address the needs of rural and island communities by improving the resilience, reliability, capacity and accessibility of ferries.

81. {redacted}

82. ***Monitoring and Evaluation*** will be developed as the project progressed toward delivery and engagement will be undertaken with communities on the detailed deployment plans and development of potential timetables.

COMMERCIAL CASE

83. CMAL, as procuring authority, confirm that they undertake a robust procurement process in line with relevant legislation and guidance. The tendering and assessment process included appropriate advice from their specialist legal, commercial and technical advisors. Due to the maturity of vessel design and the specification used in the single stage procurement process, CMAL did not require the external design consultant used on the previous Islay vessels tender. For the Shipbuilding Contract, the Baltic and International Maritime Council (BIMCO) "NEWBUILDCON" International Standard Shipbuilding contract will be used.

84. Subject to agreement with IDMB and Ministers, voted loans of up to {redacted} to cover all costs relating to procurement of vessels. CMAL will include a full refund guarantee in the contract with the appointed shipyard and make robust

arrangements to protect the investment over the course of the construction and delivery phase (including FD&D insurance cover).

85. Subject to completion of appropriate design and planning, capital grants of up to {redacted} including appropriate optimism bias, will be made for the enabling port works and these will be closely managed by CMAL as the works progress.

MANAGEMENT CASE

86. Subject to approval, the vessel element of the project will be progressed to award of contract stage and management plans, outlining the framework for managing risk, benefit realisation, post-project evaluation and the project as a whole will be developed based on the existing Islay vessel projects. Within the risk management framework all options available for risk mitigation throughout the course of construction and delivery will be considered. Suitable allowances have been made for remote and on site supervision.
87. A risk register for the vessels element and each of the port works will be drawn up to identify which party is responsible for each risk and these will also be combined to understand and manage the overall programme as a whole. A Benefits Realisation approach will also be developed as the projects progress to maximise positive outcomes and so that lessons learnt can be recorded and used on future vessel and port projects of this kind.

TENDER REVIEW – OVERVIEW

- {redacted}

PROPRIETY

88. CMAL are the procuring authority and will follow all required legislation and appropriate guidance in completing the contracts for new build tonnage. Robust tendering and assessment processes have been undertaken by CMAL with appropriate advice from their specialist legal, commercial and technical advisors. For the Shipbuilding Contract, the Baltic and International Maritime Council (BIMCO) “NEWBUILDCON” International Standard Shipbuilding contract will be used.
89. {redacted}
90. TS Ferries Contracts and Projects team have co-ordinated the discussions with CMAL and CalMac and the Head of TS Ferries, {redacted}, is acting as SRO for the project. Due to the timescales for commercial decision making on potentially securing accelerated investment and delivery and available resources, a full consultation approach with island bodies, communities and businesses has not been undertaken in the usual manner. CMAL has undertaken initial engagement with communities at the three Skye Triangle ports which focussed on the vessel design capability and internal arrangements. If contracts are placed for the additional vessels community and wider stakeholder consultation will be

progressed as part of refining deployment plans and detailed timetables in early 2023.

91. Following consideration by TS IDMB a version of this briefing and AOT will be submitted to TS AO, DG Net Zero, Permanent Secretary and Ministers for approval.

AFFORDABILITY

92. Transport Scotland budgets as part of the wider Infrastructure Investment Plan, February 2021. Scottish Government announcement of investment of at least £580 million in ports and vessels to support and improve Scotland's ferry services over the five years from 2021 to 2026. Further additional investment of {redacted} was announced at the time of progressing the vessels to procurement.
93. The capital investment and revenue costs associated with these two new vessels are now included within the current and future year budgets. {redacted}

VALUE FOR MONEY

94. The tendering process for the new vessels has been undertaken through open procedure and in line with relevant legislation and guidance to ensure competitive prices and drive value for money. The overall project is considered necessary to meet Ministers ambitions to accelerate investment in additional tonnage, reduce the overall age of the fleet and therefore improve reliability and resilience by replacing vessels, some approaching 40 years' service.
95. {redacted}

BUTE HOUSE AGREEMENT IMPLICATIONS

96. The proposals would have no direct impact on the Bute House agreement. The agreement '*to increase investment in active travel and public transport, including a Fair Fares review to provide a realistic and affordable alternative to car use*' is related due to the public transport nature of the ferries networks but the investment would be more focused on providing additional resilience and capacity for our island and remote communities than driving active travel use.

ACCOUNTABLE OFFICER TEMPLATE

97. A draft Accountable Officer Template which captures all of the capital and revenue costs indicated for the proposed additional Islay vessels is provided in **Annex C**.
98. Approval will allow CMAL to progress to contract award around 10 January 2023.

SENSITIVITIES AND HANDLING

99. {redacted}

Quality Assurance

100. This Submission has been cleared by Transport Scotland Chief Executive Officer, Director General Net Zero and Permanent Secretary with the Accountable Officer Template also cleared by Chief Financial Officer.

Conclusions and next steps

101. Approval is required as matter of urgency to progress the AOT and seek agreement from Ministers to enable CFL to put in pace appropriate arrangements, not least to engage further with the Arran community and recruit the crew required in sufficient time for deployment in summer 2023.

{redacted}

Ferries Contracts and Projects

Copy List:	For action	For information		
		Portfolio interest	Constituency interest	General awareness
Cabinet Secretary for Rural Affairs and Islands		X		

Transport Scotland Ministerial Submission List

{redacted}, TS Ferries
 {redacted}, TS Ferries
 {redacted}, ST Ferries
 {redacted}, TS Ferries
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 {redacted}, TS Finance
 {redacted}, TS Finance
 {redacted}, SG Infrastructure Policy
 {redacted}

Vessels and Deployment Routes – Overview

NEW VESSELS – Additional Islay Class Vessels

CMAL currently have a contract with Cemre yard in Turkey to build two new vessels intended for the Islay routes. The vessels under contract are expected to be delivered in 2024 and 2025. The recent open procurement for a further two vessels has used the same design and specification:



Length:	94.8 m
Breadth:	19.2 m
Draft:	4.0 m
Gross Tonnage:	6,100 T
Fuel:	MGO only
Capacity:	100 cars (PCUs) 450 passengers

Potential Deployment Routes

Ullapool – Stornoway

Skye Triangle Routes (PREFERRED)

Oban – Castlebay Route

Islay Routes

Arran (Ardrossan/Troon – Brodick)



EXISTING PRIMARY VESSEL ON THE SKYE TRIANGLE ROUTE

MV Hebrides is a Ro- Ro vehicle and passenger vessel built by Fergusons (Scotland) to in 2000 (22 years old).



Length:	99.0 m
Breadth:	15.8 m
Draft:	3.22 m
Gross Tonnage:	5,506 T
Fuel:	MGO only
Capacity:	90 cars (PCUs) 612 passengers

{redacted}

{redacted}