



The Scottish Parliament
Pàrlamaid na h-Alba

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By e-mail only

**Rural Economy and Connectivity
Committee**
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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