RURAL ECONOMY AND CONNECTIVITY COMMITTEE

DRAFT BUDGET 2019-20

SUBMISSION FROM AUDIT SCOTLAND

1. Audit Scotland welcomes the opportunity to respond to the Committee’s call for views.

2. Audit Scotland published Transport Scotland’s Ferry Services in October 2017. The audit looked at Transport Scotland’s spending on ferries to determine whether it is value for money. The report includes a number of findings and recommendations that are relevant to the Committee's Clyde and Hebrides ferry services (CHFS) review. Our response to the Committee's call for views focuses on the questions which are most relevant to our audit work. We have not answered the Committee's question on accessibility of ferries and harbours as we did not consider this as part of our audit. We have also not answered the question on the prioritisation of ferries within the overall transport budget as this is a policy matter.

3. It is worth noting that Transport Scotland has prepared an action plan in response to our audit findings. We will produce an impact report in 2019 which will set out the extent to which it has implemented our recommendations.

Is the current and proposed level of investment in vessels and port infrastructure enough to ensure the resilience of the Clyde and Hebrides ferries network in future years?

4. Transport Scotland’s Ferries Plan sets out investment proposals for services and assets, mainly for the CHFS network, between 2012 and 2022. The estimated cost of the proposals in December 2012 was £400 million, which included:
   - £295 million on vessel replacement
   - £73 million on ports and harbour works.

5. By the midway point of the Ferries Plan (March 2017), we found that Transport Scotland had made substantial progress against the commitments in the plan. But it was not clear how much Transport Scotland had spent on achieving this.

6. In 2016/17, Transport Scotland spent a total of £209.7 million on ferries. This was a 115 per cent increase, in real terms, since 2007/08. Eighty per cent of Transport Scotland’s 2016/17 spending (£168.7 million) was on subsidies to ferry operators and the remaining 20 per cent (£41.03 million) was capital investment in vessels and harbours.

7. Our report found that capital spending on vessels and port infrastructure increased by 174 per cent between 2007/08 and 2016/17. In that time, Transport Scotland spent £197.5 million on ferry assets (across its full network). A significant proportion of this spending was on CHFS, including:
   - £60 million on four new-build vessels
   - £34 million towards the £106 million cost of a further two vessels, which are currently being built.
8. There are currently 32 vessels on the CHFS network, with an average age of around 22 years. Ten of the vessels are over 30 years old. Older vessels are more expensive to maintain, are more likely to break down and will need to be replaced in the next 10 years or so. Transport Scotland has a detailed plan of vessel retentions, acquisitions and disposals for the vessels on the CHFS network, known as the Vessel Replacement and Deployment Plan (VRDP). But the VRDP does not set out the cost implication of vessel decisions, which means that it is not clear what level of spending on vessels is required to ensure resilience on the CHFS network.

9. Transport Scotland’s capital investment also includes spending on harbours. Since 2007/08 it has spent £42 million on harbours owned by Caledonian McBrayne Assets Ltd (CMAL). CMAL owns half of the harbours (25 out of 52) on the CHFS network. Between 2007/08 and 2015/16, Transport Scotland also spent a total of £200 million on harbour dues across Scotland. Harbour dues are paid to harbour owners to pay for harbour improvements.

10. Between 2007 and 2016, CMAL spent about £30 million on harbour improvement works on the CHFS network. However, CMAL told us that this has not been enough to address historical underinvestment in harbours and there is now a need to replace infrastructure:
   - which is reaching the end of its useful life
   - to accommodate new vessels
   - to manage higher demand, resulting from RET
   - to comply with disability and accessibility legislation
   - to improve the customer experience.

11. Transport Scotland does not know what proportion of the harbour dues it paid to non-CMAL harbour owners has been used for improvement works.

12. Transport Scotland does not have a harbours investment plan. CMAL has a programme of improvements for its harbours, which is based on condition surveys carried out in 2007 and 2015. The estimated cost of the improvement works is £466 million over 30 years (excluding inflation). This excludes the cost of upgrading harbours to accommodate new vessels, which may be significant. It is not clear how the improvement works will be funded within Transport Scotland’s ferries budget.

13. Our report recommends that Transport Scotland develop a Scotland-wide, long-term strategy for its network of subsidised ferries which takes into account progress already made against the Ferries Plan and proposed developments to its ferry operations. We recommend that the strategy takes into account the condition of assets and the need for capital investment. We understand that Transport Scotland will begin work on this new strategy in 2019.

Has sufficient investment been made to handle increased demand and passenger numbers, particularly since the introduction of the Road Equivalent Tariff?

14. In 2007, the Scottish Government introduced the Road Equivalent Tariff (RET) to lower the cost of ferry travel and to help reduce the economic disadvantages experienced by remote island communities. RET was introduced on a pilot basis on a few CHFS routes in October 2008 and
has gradually been rolled out. It has been in place across the full CHFS network since October 2015.

15. RET has lowered CHFS passenger fares by up to 50 per cent and car fares by up to 65 per cent, compared to ‘summer single’ fares. We found that these substantial fare reductions have contributed to increased demand on the CHFS network:

- Between 2007 and 2016, CHFS passenger numbers increased by 6.9 per cent, from 4.7 million to 5.1 million. Between 2015 and 2016, the first full year of RET, passenger numbers increased by nine per cent.
- The number of cars travelling on the CHFS network increased by 27 per cent between 2007 and 2016 (from 1.1 million to 1.4 million). This includes a 16 per cent increase between 2015 and 2016 alone.

16. Transport Scotland has made a substantial investment in the CHFS network. In 2016/17, this totalled £133.8 million, which is a 185 per cent increase since 2007/08. The reasons for the increased costs include:

- the introduction of RET
- an increase in service provision. Since 2007, two routes have been added to the network and the annual number of sailings has increased by 3.5 per cent (from 130,968 to 135,542).
- new vessels being added to the network.

17. Between 2008/09 and 2015/16, Transport Scotland spent about £40 million on the direct cost of RET (that is the cost of the additional subsidy provided to CalMac to offset lower fare income). We reported that the indirect cost of implementing RET is not known but will include the associated costs of higher demand, for example additional sailings, which require extra crew and fuel, more harbour dues and increased vessel and harbour maintenance.

18. The RET policy means that CalMac is unable to adjust fares to help manage the increased demand. For example, it cannot increase fares on sailings with high demand for spaces to encourage users to travel at a different time. It also means that it cannot raise additional income to help cover the costs of the additional demand.

19. Transport Scotland estimates the direct cost of RET on an annual basis. It does not estimate the cost of RET beyond the following financial year, nor has it made any assessment of the full, long-term costs of increased demand.

20. Transport Scotland is due to evaluate the impact of RET in 2019. It will include an assessment of RET on ferry traffic, the customer experience and local economies. It will also consider the direct and indirect costs of RET. The findings should help Transport Scotland assess how much investment is required, in both services and assets, to meet the increased demand from RET. Transport Scotland's should take the evaluation findings into account when developing its new ferries strategy.
What would be the impact on services and island life if ferry services are not appropriately funded?

21. As we state in our report, ferry services are vital for sustaining remote communities in Scotland. Every year about nine million passengers and 2.8 million cars travel on 66 ferry routes across the country, allowing people to get to work and increasing social and cultural opportunities for islanders. Ferries also carry a high number of visitors to the islands, which is vital for local economies. Ferries also transport essential goods to these remote communities and help export large amounts of island produce, including seafood and whisky, which contribute significantly to Scotland’s economy.

22. At the time of our audit, ferry users on the Clyde and Hebrides were generally happy about the level and frequency of services and were positive about new vessels being added to the fleet. Our report supplement sets our more information on users' views of ferry services. Our analysis showed that in 2016, 96 per cent of CHFS services operated and 98.1 per cent of these were on time.

23. There are, of course, variations in ferry reliability and customer satisfaction across the network and there have been occasions of severe disruption to ferry services. For example, delays with the maintenance of one of Calmac's vessels earlier this year resulted in services on two routes being suspended and reduced on three others. There have also been widely reported delays to the building of two new vessels. These vessels were due to enter service in 2018 and would have created additional capacity and eased pressure on the network. Ferry users' dissatisfaction with their services is widely publicised in the media. They report the significant social and economic impact that a reduced ferry service can have.

24. Transport Scotland’s spending on ferries has more than doubled in the last 10 years. But Transport Scotland does not know the full extent of future spending requirements on ferry services, vessels and harbours. It needs to consider how it can continue to provide services to meet the increasing demand from service users, build new vessels and maintain and develop its harbours within its allocated budget.

25. Our report recommends that Transport Scotland sets out its intended benefits of its ferry services and how these will be measured, monitored and reported. This will allow it to consider and demonstrate the impact of its operational and financial decisions on outcomes for local communities and economies.