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Net Zero, Energy and Transport Committee

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Dear Convenor

NET ZERO, ENERGY AND TRANSPORT COMMITTEE – INQUIRY INTO A MODERN AND SUSTAINABLE FERRY SERVICE FOR SCOTLAND

In the course of giving evidence on 28 February, my predecessor Jenny Gilruth agreed to provide further information in writing to the Committee.

In some instances, where policy is still being developed or the information is not yet available, my intention as the new Minister for Transport will be to update the Committee in due course. Where possible I have set out as full an explanation and provided further information on the topics you have asked.

Your letter refers to a number of issues and themes. I have grouped the answers below in as close a format as possible, noting there is some overlap between some of the areas of interest.

Details of the timescales for the development of the Island Connectivity Plan including—

- o When consultations on each element will take place;**
- o When the resulting Plans will be published and implemented; and**

As Ms Gilruth explained in her oral evidence to the Committee, there are a number of elements to the ICP and I will be happy to share updates on progress with the Committee on an ongoing basis.

The draft Long-Term Plan for Vessels and Ports for CHFS and NIFS was published at the end of last year. [Islands Connectivity Plan \(transport.gov.scot\)](https://www.transport.gov.scot)

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This was shared with key stakeholders for initial comments and my aim is to publish an updated version for public consultation shortly. Consultation will be for 12 weeks. My intention is to publish the final version of the Long-Term Plan for Vessels and Ports by the end of this year; this will take account of the consultation responses and also the outputs of community needs assessments and impact assessments.

The majority of work on the other elements of ICP will be undertaken during 2023. None of this work will be completed without public consultation as well as engagement with key stakeholders and communities.

The intention is to develop the strategic ICP document for all islands through stakeholder engagement during the first half of 2023 and then publish a draft for formal public consultation later in the year. This document will aim to set a vision for Scottish ferries, outline good practice/standards for delivery of ferry services in Scotland which will also support local authority delivery plans and identify benefits the ICP will deliver to communities and wider economy.

The ICP will also include the following delivery plans for CHFS (Clyde & Hebrides Ferry Service) and NIFS (Northern Isles Ferry Service) and the CMAL fleet:

Community Needs Assessments

Following the approach used in the Ferries Plan, refreshed Community Needs Assessments (CNAs) will be undertaken to establish communities' transport connectivity needs, identify transport dependencies and propose options to address any gaps in service provision. The plan is to commission a series of assessments during 2023.

Fares policy review which will also connect to the Fair Fares Review

Issues related to fares will be explored as other parts of ICP continue to be developed. Work continues with the Fair Fares Review as well as managing inflation impacts on ferry fares.

Carbon Reduction Plan

A draft plan is due to be completed by summer 2023, to inform the next Scottish Government Climate Change Plan due in late 2023. An expanded section on decarbonisation was included in the draft Long-Term Plan for Vessels and Ports. This element of the ICP should be completed by the end of 2023.

Onward and Connecting Travel

A scoping document with key themes and a draft action plan is being developed in the first half of 2023, with stakeholder engagement to begin in summer. This is likely to be an ongoing activity.

The ICP and its associated delivery plans will be supported by statutory impact assessments, market assessments, a financial plan and a monitoring, review and evaluation plan. Initial scoping and screening work on the range of impact assessments is underway.

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Although I cannot be more precise on the exact timings of publication or consultation at this stage, I would be pleased to keep the Committee informed as those dates become more concrete.

The timescales for the Clyde and Hebrides Ferry Service Contract tender process and how the various elements of the Islands Connectivity Plan will contribute to the tender process.

Officials responsible for the next CHFS contract and for the Islands Connectivity Plan are working closely together within the new Transport Scotland Ferries Directorate in order to ensure that project plans and engagement activities are aligned.

The next CHFS contract will be a key instrument for the implementation of the ICP. This will include alignment with and progress towards the aims and priorities to be set out in our strategic document but also the incorporation of approved outputs from the community needs assessments and actions towards the achievement of our goals for carbon reduction and for integration with onward and connecting travel. I can confirm that work is already underway on the development and shape of the next CHFS contract and I look forward to updating the Committee further in due course.

The Committee asked whether the Scottish Government is free to redesign the delivery framework for ferry services now the UK has left the European Union. You offered to provide confirmation of the context in which decisions on future governance structures will be taken.

As Ms Gilruth explained in her oral evidence to the Committee, we are looking at what additional flexibility may be possible under the new Subsidy Control Regulations and are expecting advice later this year. I will update the Committee once I have had opportunity to consider advice in the round, noting the range of legal, financial and operational implications.

As noted at the Committee, one of the key areas we are considering is the scope for a longer contract length – and we would have been considering this even had Scotland remained within the EU.

Examples of where changes have been made to ferry operation contracts, including the time between a proposal to change the service stipulated in the contract and the practical application of the change—

- o Timetable changes;
- o Route changes;
- o New routes.

There are regular changes made to operating contracts during their duration. These variations within the terms of the contract are agreed between Transport Scotland, on behalf of Ministers, and the ferry operators.

Given the much higher number of routes and sailings, there have been more changes to the Clyde & Hebrides (CHFS) contract than to that for the Northern Isles (NIFS). For CHFS, there have been 129 variations to date to the contract which commenced October 2016; for NIFS there have been 8 variations to date to the contract which commenced June 2020.

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Examples of key changes have been:

1. Timetables: changes to the CHFS contract are canvassed from community representatives (typically ferry committees) twice a year for changes to the next summer and winter timetables. These are intended to facilitate minor changes to timetables to better meet user needs. Changes are assessed by CalMac for feasibility (in terms of e.g. crew hours, public transport connections and impact on services to other communities) and affordability – these should normally be broadly cost neutral.

Whilst there is not a comparable process for NIFS, timetables are varied year by year in particular around the peak livestock season and depending on the availability of additional tonnage. Changes are discussed between the operator, Serco NorthLink, and users.

2. Fares: although each contract assumes that fares will keep pace with inflation, proposals are presented by the operator to Transport Scotland and annual fares increases, or freezes, are approved by Ministers.
3. Sailings: additional sailings have been introduced to a number of CHFS routes and each of these requires a variation to the contract. The most recent examples relate to the deployment of the MV Loch Frisa to the Craginure-Oban route to Mull. This enabled an increase in sailing frequency in the Winter and also, through vessel cascades, increased sailing frequencies on services from Mallaig to Armadale (Skye) and Lochboisdale (South Uist).

Previous examples include the introduction of two vessel summer services on the major routes to Mull and Arran.

Looking ahead, Ministers have previously announced the intention to introduce a two vessel summer service to the Uig-Lochmaddy/Tarbert routes when new tonnage, now on order, is delivered.

4. New routes: Three new services have been added to the CHFS contract since it commenced in October 2016:
 - Gallanach to Kerrera
 - Gourock to Dunoon
 - Gourock to Kilcreggan.

Two routes were added to the previous CHFS contract:

- Ardrossan to Campbeltown
- Mallaig to Lochboisdale

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Whether there are other examples of the Scottish Government, or Scottish Government owned companies, using subsidiary companies based offshore to pay employees for the purpose of avoiding paying National Insurance;

There is wider background to this issue and it may help the Committee if I can summarise that. This is not a question that would apply widely (if at all) within Scottish public bodies as it relates to tax arrangements for seafarers as offshore workers. Similar arrangements are in place in relation to the Serco Northlink services.

The basis of the arrangement CalMac has, for some of its seafaring staff, is a provision that the UK Government put in place in the early 2000s as part of its efforts to attract or retain vessels on the UK ship register and protect UK maritime jobs – by reducing costs to shipowners and making the cost of being UK flagged more competitive.

I would like to make two points clear. Firstly, this arrangement only relates to Employer Contributions – so there is no disadvantage to employees in terms of their own National Insurance record. Secondly, the purpose of this arrangement is not to avoid paying National Insurance. CalMac's objective was to avoid a disadvantage compared to potential competitors ahead of the first competitive tendering of the CHFS contract, awarded in October 2007.

I would also add that any departure from this arrangement would result in a corresponding increase in the subsidy paid under the contracts.

I expect to receive further advice on this as we consider the details of the next CHFS contract to determine whether this arrangement remains appropriate.

CMAL were asked about the Cemre Marin Endustri A.S contracts for building ferries to serve Islay and routes between Uig, Lochmaddy, and Tarbert (Harris) and whether this included a clause to stipulate Scottish, UK and European firms should form part of the supply chain where possible. Having been told it did not, the Committee asked which organisation would have the ability to include such a clause and was told this was CMAL. The Committee sought your view and you undertook to confirm this was the case.

As part of the contract for two vessels for Islay, Caledonian Maritime Assets Limited (CMAL) could not have stipulated that only Scottish or UK suppliers could be used as the Regulations require them to treat economic operators equally and without discrimination and restrict them from artificially narrowing competition by unduly favouring or disadvantaging any particular economic operator.

Kongsberg have an agreement in place with Cemre Marin Endustri for fin stabilisers, with the production facility based in Dunfermline. Fifty-eight companies (overseas or based in England) are also set to provide products and/or services for the new build vessels. Forty of these companies have signed agreements, with the remaining 18 companies obtaining signed agreements as the shipyard build programme progresses.

Additional Information

In addition to the material requested, I thought it might also be helpful to draw the committee's attention to the extract from the pre-consultation draft of the Islands Connectivity Plan Long-Term Plan for Ports and Vessels. The summary included at **Annex A** highlights the considerable improvements delivered under the Ferries Plan, as well as highlighting where work remains to be undertaken or completed.

Although we have considerable work to undertake, and need to remain ambitious and focused in working with island communities to develop the forward plans, it is important to focus on what has been achieved.

Summary

I would like thank the Committee for its work to date and for its engagement with communities and wider ferries stakeholders throughout the Inquiry. I look forward to reviewing the final report once finalised and responding in due course.

Yours sincerely,

Kevin Stewart

Ferries Plan Delivery

The ten years since the publication of the Ferries Plan have seen many positive achievements in terms of new routes, increased sailings, reduced fares, new vessels, port renewals and growth in both passenger and vehicle numbers:

- Increased sailings to Arran, Bute, Coll, Tiree, Small Isles, Colonsay, Mull,
- Islay and the Outer Hebrides
- Roll-out of Road Equivalent Tariff (RET) fares for passengers and cars to
- CHFS completed in 2015 (except Gourock-Dunoon/Kilcreggan and Kerrera
- which have since been added to the CHFS contract) – saving passengers
- approximately £25m per year
- New summer service to Campbeltown
- New Mallaig-Lochboisdale service
- Delivery of 3 new small hybrid vessels serving Raasay, Mull and Arran
- Delivery of MV Loch Seaforth to Stornoway-Ullapool route and upgrade of
- Stornoway and Ullapool ports
- Upgrade of Brodick pier; works at Oban (short-term), Lochaline, Wemyss
- Bay and Tarbert (Harris)
- Kerrera service brought into CHFS network; new vessel and slips
- Constructed
- Gourock-Kilcreggan service brought into CHFS network
- Deployment of second vessels in summer for Arran and Mull
- Purchase of the 3 NIFS vehicle/passenger vessels and 2 NIFS freight
- vessels, ensuring continuity of service
- Ferries Accessibility Fund introduced with the majority of the £500,000
- budget now invested in a series of improvements.

A number of other Ferries Plan commitments have not been delivered. The key ones of relevance to this draft Long-Term Plan are:

- Replacement of major vessels (MVs Hebridean Isles, Isle of Arran and Isle
- of Mull) – this can be achieved with the delivery of 801/802 and the 2 new
- Islay vessels (subject to decisions on fleet resilience).
- Replacement of small vessels (MVs Isle of Cumbrae, Loch Linnhe and
- Loch Riddon) – small vessels will be replaced as part of the Small Vessel
- Replacement Programme.
- Small Isles: changes to timetable and vessel deployment (not supported by
- those communities).
- Colonsay: island-based service through deployment of an alternative vessel
- (proposed vessel not supported by community).
- Replacement of Lochboisdale and Armadale piers (projects underway or in
- development).
- Enhanced winter service to Arran – dependent on delivery of new tonnage
- (801).
- Lismore: work towards a single vehicle-passenger service from Point to Port Appin has not
- progressed due to other priorities

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