



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Public Audit and Post-legislative Scrutiny Committee

**Thursday 1 February 2018**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE**  
**4<sup>th</sup> Meeting 2018, Session 5**

**CONVENER**

\*Jenny Marra (North East Scotland) (Lab)

**DEPUTY CONVENER**

\*Liam Kerr (North East Scotland) (Con)

**COMMITTEE MEMBERS**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Bill Bowman (North East Scotland) (Con)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Iain Gray (East Lothian) (Lab)

\*Alex Neil (Airdrie and Shotts) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Roy Brannen (Transport Scotland)

Graham Laidlaw (Transport Scotland)

John Nicholls (Transport Scotland)

Graham Porteous (Transport Scotland)

Tavish Scott (Shetland Islands) (LD)

**CLERK TO THE COMMITTEE**

Terry Shevlin

**LOCATION**

The David Livingstone Room (CR6)



# Scottish Parliament

## Public Audit and Post-legislative Scrutiny Committee

Thursday 1 February 2018

*[The Convener opened the meeting at 10:00]*

### Decision on Taking Business in Private

**The Convener (Jenny Marra):** Good morning and welcome to the fourth meeting in 2018 of the Public Audit and Post-legislative Scrutiny Committee. I ask everyone in the public gallery to switch off their electronic devices, or to switch them to silent, so that they do not affect the committee's work this morning.

I welcome Tavish Scott MSP, who has joined us for this morning's meeting.

The first item is a decision on taking business in private. Do members agree to take item 3 in private?

**Members** *indicated agreement.*

### “Transport Scotland’s ferry services”

10:00

**The Convener:** Item 2 is evidence on Audit Scotland's report “Transport Scotland's ferry services”. I welcome witnesses from Transport Scotland: Roy Brannen, the chief executive; John Nicholls, the director of aviation, maritime, freight and canals; Graham Porteous, the head of special projects; and Graham Laidlaw, the head of the ferries unit. I ask Roy Brannen to make an opening statement.

**Roy Brannen (Transport Scotland):** Thank you for the invitation to come here. We welcome the opportunity to discuss the report today. I will introduce my colleagues. John Nicholls is the director of aviation, maritime, freight and canals. He leads on all ferries matters for Transport Scotland. Graham Laidlaw is the head of the ferries team and has been involved with ferries for a considerable time. Graham Porteous is the head of special projects and the deputy director of procurement. He was involved with the procurement exercise for Clyde and Hebridean Ferry Services 2.

Ferries are an iconic transport service in Scotland and are recognised much further afield as being part of our cultural heritage, but for remote and island communities they provide essential lifeline connectivity—they are road, rail and bus rolled into one. Although a good number of islands also have air links, many do not, particularly the smaller ones, and, although air services are good at moving people, ferries remain the workhorses that move large numbers of vehicles and large amounts of freight every year.

Ferries are one of the vital transport services for which Transport Scotland has responsibility—not on the scale of road and rail, but comparable with national concessionary travel. As part of that, we have sought to deliver ministers' policies and expectations for ferries. Most notably, in recent years, that has focused on commitments to reduce fares for all travellers to and from the islands as well as the provision of additional services and infrastructure.

That has brought significant benefits in reversing the sharp decline in passenger numbers that followed the financial crisis—there was a fall of almost 5 per cent between 2007, which was taken as the base year by Audit Scotland, and 2008. However, as Audit Scotland notes, increased demand, particularly for limited vehicle deck space, has led to new routes, more sailings, bigger vessels and upgraded harbours, all of

which, alongside our other priorities, has required us to make the case for increased investment.

That increase in investment has, understandably, attracted attention, leading to Audit Scotland's review. We were pleased to co-operate in Audit Scotland's work and act on its conclusions and recommendations. We welcome the report and recognise that it provides a good basis for action. The key lesson that we are taking from the report is not that spending on ferry services is too high or, indeed, that it needs to be reduced, but that the specific contribution of ferries to the health of island economies is not well understood. We have started from an assumption that, without an adequate ferry service, an island's economy and community would suffer and could go into decline. Nevertheless, we accept the view that there is value in making that link clearer and in understanding how the available resources can be optimised to support key growth sectors such as food and drink, energy and tourism.

We need to develop a range of future spending scenarios, given the on-going pressures on public finances. We have long-term spending forecasts that feed into annual budget rounds, but we intend to develop them to give ministers options within the context of our long-term strategy. That should enable us to plan more effectively in partnership with ferry operators and harbour owners.

We look forward to hearing members' views. We value your input and will be pleased to discuss with you the important points that have been raised by Audit Scotland. We will also be happy to answer any questions. If, between us, we do not have the answers today, we will, if the committee is content, follow up those points in writing.

**The Convener:** That is helpful, Mr Brannen. Thank you very much indeed. I invite Colin Beattie to open the questioning.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I will start with the pension deficit. Having such a deficit is not unusual in the public sector or in the private sector. However, in paragraph 23 of its report, Audit Scotland says that, in 2007, the employer's pension contribution rate increased from 14.5 per cent to 24.2 per cent of employees' salaries and that, in 2016, it increased again to 30.8 per cent. Despite that, the deficit has increased. For the record, what percentage do employees pay towards their pension? Audit Scotland notes that the employer's additional contributions have not made a big difference to the deficit, which is still increasing. What is the plan for that?

**Roy Brannen:** Pensions remain a challenge across the piece. John Nicholls has been heavily involved in the work in that area, so I ask him to take your questions.

**John Nicholls (Transport Scotland):** I should say that I am not a pensions specialist, but I have been fairly closely involved with the issue, as Roy Brannen said.

I will answer your second question first. As Audit Scotland notes, the deficit has been increasing. We will need to wait for the next triennial valuation to establish exactly what the position is. At that point, we will review our options. It is fair to say that we expect the deficit to remain fairly substantial. There are a number of reasons for that. A number of factors go into the deficit in addition to the amount of money that is put into the scheme by the employer and the employees. The deficit reflects the performance of the investments that have been made by the scheme—whether good or bad—and the assumptions that are used by actuaries in calculating how members of the scheme will act and the future projections. It also reflects the strength of the employee/employer covenant that stands behind the scheme. All those things can affect the deficit.

The management of the scheme is undertaken by its trustees—the employer, employee representatives and an independent chair. Transport Scotland is not directly involved in that process; however, given that we provide the vast majority of the funding through the employer, we have a genuine interest in it.

We will need to wait for the triennial valuation. Once we have that, acting with the trustees, we will decide on a range of options. At the moment, through Transport Scotland, the Scottish Government puts in—from memory—around £5 million or £6 million to assist with the deficit. We will need to review whether that on-going funding is sufficient. As Audit Scotland mentions in its report, we might also need to consider whether action is required on the scheme itself. That has been the subject of discussion with the employer and the trade unions over recent years.

I have a couple of additional points to make. First, the existing scheme is fully protected through the Clyde and Hebrides ferry services contract. The operator, CalMac, is required to maintain the scheme and keep it open to new members. Through the contract, it is indemnified against any increasing costs in the scheme. Therefore, the scheme is protected for at least the duration of the contract. That is secured.

Secondly, the current recovery plan for the deficit has been approved by the Pensions Regulator. We and the trustees will need to keep it under review, but, for the moment, we have that level of assurance.

With regard to Mr Beattie's first question, I do not have in front of me the figure that he asked for.

**Graham Laidlaw (Transport Scotland):** It is 6 per cent.

**John Nicholls:** That is helpful. Thank you.

I hope that that answer was helpful to the committee.

**Colin Beattie:** I note that the next valuation will be made this year, and I presume that a new figure for the deficit will be available. From what you have said, it sounds as though it will not necessarily be a positive picture.

The employer's contribution to the pension fund was 30.8 per cent in 2016, and you have told us that employees are paying 6 per cent. How does that compare with the position in the rest of the public sector? Is 30.8 per cent high? Is 6 per cent low?

**John Nicholls:** We are doing a piece of work to look at pensions across the public sector, and the benefits of the CalMac scheme are perceived to be fairly generous compared with elsewhere, including the proportions of the contributions. Reforms have been made elsewhere in the public sector. One particular example is Highlands and Islands Airports Ltd, whose contribution rates are slightly different.

It might be simplest if we do the piece of work on the different contributions that apply and share it with the committee. From memory, I think that the CalMac scheme is towards the upper end of that range.

**Colin Beattie:** Will the Scottish Government continue to put in the additional funding that you are talking about to make up the deficit?

**John Nicholls:** As far as the budget for the next year goes, as we have seen through the draft budget, the pensions element is included within the ferries funding line. Through the contractual arrangements that I described earlier, there is an on-going commitment to keeping those things in place. As far as that is concerned, we can give that commitment for the foreseeable future.

**Roy Brannen:** We will have to advise ministers at some point, once the outcome for 2018 is known.

**Colin Beattie:** If you have contributions of 30.8 per cent from the employer and 6 per cent from the employees, that is 36.8 per cent. Is that a high proportion of salaries going into the pension fund? It is disproportionate?

**John Nicholls:** I am afraid that that is beyond the limit of my knowledge at this stage. I apologise for that.

We recognise that the CalMac scheme is, in essence, a final salary scheme and that the demands on such schemes—as I think everybody,

including Audit Scotland, recognises—will be higher than elsewhere in the public sector where there have been changes in recent years. It is a good scheme and its members appreciate it, but we will need to keep a close eye on it in the future.

**Colin Beattie:** Let us move on from the pension scheme and look at passenger numbers, which I am a wee bit confused about. Overall, passenger numbers have increased by 0.3 per cent since 2007, which does not seem to be a big increase. You say that, across all three contracts, the total number of passengers decreased by 9 per cent between 2007 and 2012 and that, between 2012 and 2016, that base was increased by 10 per cent. Was that when the road equivalent tariff became effective? Is that why that uptick took place?

**Graham Laidlaw:** Yes. Two or three things are going on there. Audit Scotland's baseline year for the work was 2007, which was a tumultuous time for the economy, finance and growth in the sector. That had an adverse impact on carryings and on a whole bunch of other things.

The ferries sector was growing pretty steadily, but that growth fell off quite dramatically over the year and then flatlined for four or five years. Audit Scotland's letter to the committee, which we have had sight of, makes it clear that the numbers dropped but that they have gone back up again.

The two factors at play are RET, route by route, and the economy. As RET was rolled out across the network, it had a positive impact on passenger numbers and car numbers. Growth in the economy will encourage people to make trips, and tourism will grow on the back of that.

**Colin Beattie:** The biggest decrease of 4.7 per cent was in 2007-08. What was the reason for that?

**Graham Laidlaw:** That was due to the economy. From memory, the RET pilot started in the Western Isles, Coll and Tiree in October 2008, which meant that most of the year passed without any RET impact and there were only four routes to the Western Isles, including Coll and Tiree, in the whole network. There are now 26 routes in the Hebrides.

10:15

**Colin Beattie:** The route that really concerns me is the Gourock to Dunoon route, on which passenger numbers decreased by 50 per cent. Two thirds of that reduction took place between 2007 and 2011. After the passenger-only service was introduced, in 2011, numbers continued to fall, albeit at a slower rate. What is the prognosis for that situation?

**Graham Laidlaw:** The general prognosis is that there has been a move from what was then the

CalMac Argyll ferry service—the Cowal ferry service, I think—to the commercial operator on the route, Western Ferries.

**Colin Beattie:** Could CalMac not compete?

**Graham Laidlaw:** There are some practical issues. The commercial operator runs a service that has three or four sailings per hour and comparable fares, and the route is shorter because it leaves from slightly out of town. The CalMac service has only two sailings an hour.

**Colin Beattie:** Is the CalMac service going to survive if passenger numbers continue to fall?

**Graham Laidlaw:** At the moment, we are in the throes of a procurement exercise and are working on the specifications for that service, so I cannot say too much about it. However, the intention is to put in place a more reliable service, which is why we have specified two larger vessels for the service. Three or four years ago, an independent consultant did some work that indicated that reliability was a key element in people's satisfaction with the town-centre CalMac Argyll ferry service. The expectation is that more reliable vessels will attract more people to use the town-centre service, which is an important service because it increases connectivity to the town and, on the Gourock side, connects to the railhead that serves the line up to Glasgow.

**Colin Beattie:** You have a business plan to turn the situation around—over what period?

**Graham Laidlaw:** As we entered the procurement period, the contract was extended initially for nine months and then for a further nine months. That period will run until the back end of this year. We will have new vessels in place either when the contract kicks in, early next year, or a short time after that, so there will be new tonnage on that route. We hope to meet the demand and grow the service within that timescale.

**Liam Kerr (North East Scotland) (Con):** Before I turn to the issue of procurement and develop some issues around subsidies, I will pick up on some of the questions that Colin Beattie asked.

In summary, on the Gourock to Dunoon route, Argyll Ferries runs a subsidised passenger-only service that has seen a decline of 50 per cent in passenger numbers, and, virtually next door—this is out of my region, so I cannot quite picture it—Western Ferries runs an unsubsidised service that takes cars and has seen a 1 per cent increase in passenger numbers. I read the *Official Report* and noted that, the last time that we discussed the matter, I said that Argyll Ferries was running at 7 per cent capacity. That suggests that, as a taxpayer, I am paying for a competing service with an apparently too-big vessel when a private

company is doing a good job right next door. Where is the value for money in that? Why are we going ahead with the procurement exercise that Mr Beattie alluded to and saying that we will get bigger vessels and a better service when, according to you, Argyll Ferries is losing passengers to the unsubsidised service next door?

**Graham Laidlaw:** I think that the service is losing some passengers to the unsubsidised service. However, since the move to the situation that we currently have—with Western Ferries running a commercial vehicle-and-passenger service and Argyll Ferries running a passenger-only service—there has been a substantial drop in passenger numbers, and traffic has almost disappeared. Some 200,000 or 300,000 people who used to travel on either or both of those routes do not seem to be travelling at all now.

**Liam Kerr:** Why are they not travelling? Is it because they are desperate to get on an Argyll Ferries service with their car?

**Graham Laidlaw:** That may be the situation. They may perceive the service to be unreliable or not as effective as it could be and, therefore, choose not to travel.

**Liam Kerr:** I am thinking aloud. Have you scoped out whether it would be more cost effective to the taxpayer to subsidise a bus service from point to point on the Western Ferries service?

**Graham Laidlaw:** We have looked at a number of issues and have advised ministers on them all. Ministers clearly have a commitment. Back in 2009, the European Commission looked into the matter and recognised that there was a socioeconomic benefit in having a town-centre-to-town-centre passenger service, and that is the basis on which we are going forward with the service. We put all the options to ministers and a ministerial task force was involved. Ministers came to the view that they would provide a subsidy for the passenger-only service in the hope that the operators would come in with a commercial vehicle service on the back of that.

**Liam Kerr:** Did you say that the evidence base for that decision dated from 2009, or did I pick you up wrongly?

**Graham Laidlaw:** No, the European Commission assessed the route when it carried out a full investigation of support for ferry services in Scotland, and it reported in 2009. However, we have done further work since then. We see the sustainability of the service as being linked to a more reliable service and a more reliable service as being linked to bigger and better vessels.

**Liam Kerr:** That all comes back to value for money for the taxpayer, so I will move on to the



procurement exercises and the subsidies. The key messages in part 3 of the Audit Scotland report are about the CHFS procurement and say that there were a number of weaknesses in it. The following page—page 33—says:

“Transport Scotland’s procurement strategy for the 2016-24 CHFS contract ... set out a number of learning points from previous ferry procurement exercises”

but that the

“review of the CHFS2 procurement exercise found that these lessons had not been applied.”

Did you assess whether there was any additional cost to Transport Scotland and/or the bidders as a function of the lessons not being applied?

**Roy Brannen:** A procurement strategy was developed at the start of the CHFS contract that evaluated a number of different procurement methods. It considered not only the method that was finally chosen but pure competitive dialogue and negotiated procedure. The outcome of its evaluation of those procedures was that the new procedure that we adopted was the right one for that tender. The lessons learned in the previous CHFS contract were included in that document. I can supply it to the committee if you wish to see it.

**Liam Kerr:** Nevertheless, Audit Scotland was clear that there were issues during the process. Tendering for that contract would be an extraordinarily expensive exercise and, if I wanted to tender for it, I would want to know that, if I was going to bid in future tendering exercises, I would not pay a premium for Transport Scotland learning on the job. Is that an unfair criticism?

**Roy Brannen:** That is unfair. I will ask Graham Porteous to explain why.

In principle, the number of touch points with the tenderers that was needed was set out at the outset of the tender process. Any tenderers that are entering a competition make an allowance for bidding. Either they recover that allowance through winning the tender or they offset it against their corporate accounts. Our job is to make as clear as possible at the outset what is expected of the tenderers and how we will engage with them throughout the process to minimise tender costs for us and them. We do not make an allowance for their tender costs, because they can put either an enormous amount of effort or very little effort into the process. That is a judgment call that they need to make on the basis of the specification that they are tendering on, and both parties did that.

**Graham Porteous (Transport Scotland):** I will respond to the comment that was made about Transport Scotland learning on the job. The procedure that was introduced was new, and we considered that. We wanted to be able to talk to the tenderers as part of the tendering process. If

we had chosen a restricted procedure, we would have needed a detailed specification. If we had gone the opposite way and chosen competitive dialogue, we could have had a very lax specification. The competitive procedure with negotiation was somewhere between the two and was less intensive. Also, there was, in essence, no learning to be done for us, because competitive dialogue and the competitive procedure are very similar.

**Tavish Scott (Shetland Islands) (LD):** Liam Kerr has asked some interesting questions. As far as I understand it from the Audit Scotland report on the particular tendering that you are describing, the original bid was £128 million lower than Transport Scotland estimated and then Transport Scotland was not required to assess the 350 subsequent commitments on CalMac’s bid. Why were you not asked to assess those commitments in terms of value for money?

**Roy Brannen:** Again, I will try to explain it in simple terms but Graham Porteous probably has a broader explanation, given his procurement background. In simple terms, the bid process is set up to value both price and quality, but when there is not a competitive tender, you cannot compare the bid with anything else.

The quality element—the 350 commitments—was quality assessed rather than quantitatively assessed. The commitments include, for example, having 80 per cent of produce supplied locally and having a number of modern apprentices. Those commitments are not quantitative; they are qualitative. Also, there was no need to assess them because we had a compliant bid.

**Tavish Scott:** But you will not know whether those 350 commitments are good value for money, and nor will the taxpayer, this audit committee or Parliament, because they were never assessed. Is that not just bad practice? Should they not be assessed as a matter of routine practice?

**Roy Brannen:** They are assessed in comparison with the other tenderer. The quality assessment score would have been against the other tenderer. There is not a monetary value. We do not assess whether—

**Tavish Scott:** Wait a minute—the bid amount went up; the final bid is £975 million, so there is a value for money factor.

**Roy Brannen:** No, the final bid was as a result of a pre-known variation to the contract. Both tenderers knew that there was going to be a variation to the contract based on timetable changes. That was known well in advance.

**Tavish Scott:** And those timetable changes alone cost £120 million?

**Graham Laidlaw:** It is substantially to do with that.

**Tavish Scott:** Sorry—by “substantially”, do you mean that it is all to do with the changes in ferry timetables?

**Graham Laidlaw:** It is largely about the timetables. I can supply the committee with detailed numbers but basically what happened was that the tender started just before the last phase of the roll-out of RET so we knew that there were going to be substantial reductions in fares and probably substantial increases in patronage.

Basically, it is about the revenue take that the operator gets back from the services. In the past, for example, ferry fares fell dramatically between Oban to Craginure. The operator bid on the basis of the fares regime at the time. You have to pick a fixed point in time and say, “Bid on that basis, but we know things are happening because the policy is changing.” The real world was still changing. The operator bid on that basis, but there was a year and a half to two years of policy changes, timetable changes and fare changes that required the final contract to be updated to reflect what happened at the bid stage—

**Tavish Scott:** But that is not a very fair bidding process for anyone, is it? If the ground is moving under them—or, to pick a better analogy, the water is moving under them—

**Graham Laidlaw:** The alternative to that is that you just do not change anything—you do not change any timetables or any fares for two or three years.

**Tavish Scott:** But you were responsible for the policy changes.

**Graham Laidlaw:** Yes, but also, you do not know—

**Tavish Scott:** You cannot blame the tendering companies for that.

**Graham Laidlaw:** No—what we are saying is that policy changes were happening. Also, two or three phases of RET roll-out had happened immediately beforehand. All the evidence on RET is that you get a big impact in year 1 and a sizeable impact in year 2, and then it settles down after year 3. Clearly, that process had not happened for all the services.

Clearly, there is a huge risk to the operator if it takes on the risk of all the fares, and all the changes—all the changes in patronage or whatever, in the midst of a large contract. That was exposing it to a risk. We took the view that we should not expose it to that level of risk as part of the procurement.

**Liam Kerr:** To stick with procurement, there is an issue that troubles me across a number of

sectors. There appears to be no weighting for incumbency, which means that, when a ferry contract comes to an end, tenderers will come in and the fact that someone is the incumbent merely, as I understand it, gets them from the longlist to the shortlist. If that is right, the thing that troubles me is about what incentive there is for the incumbent to invest in services, particularly towards the end of the contract. What protections for the taxpayer do you build into the contracts against, say, a diminution in service towards the end of the contracts?

10:30

**Graham Porteous:** Could you repeat the bit about the longlist and the shortlist, please?

**Liam Kerr:** In effect, my point is that, if I am the incumbent and I want to tender for the contract again—correct me if I am wrong—there will be a filtering exercise because a load of people will tender for the contract and you will sift out the ones that are clearly worth considering further, and I understand that the incumbent will get through to that round 2.

**Graham Porteous:** No—

**Liam Kerr:** My point is even stronger then. What incentive is there for the incumbent to invest towards the end of the contract, if incumbency does not count for anything?

**Graham Porteous:** The incentive is that it is in a contract with fixed terms and conditions. With every tendering process, people are allowed to apply and they are then judged on their capability at tendering. It does not matter whether someone is the incumbent. That is why we have that process. If someone is in a contract, they have to deliver right up to the end, because otherwise they will not be paid.

**Liam Kerr:** If the incumbent is judged on its capability at tendering, do you see any concern—

**Graham Porteous:** It is judged on its capability to provide the service.

**Liam Kerr:** You said that it is judged on its capability at tendering, which is what concerns me. To the taxpayer sitting at home, would it not seem logical to say that, if an operator is providing a fantastic service, has upgraded the units and has amazing customer service, that should at least count for something going forward?

**Graham Porteous:** It allows that operator to demonstrate that they have the capability to operate the service but, once you are on the tender list, you are on the tender list.

**Roy Brannen:** Talking more generally about procurement, I would say that the process is exactly the same with our operating company

contracts. The incumbent will have experience of running the contract and will have demonstrated its ability to undertake whatever the new specification is. However, it is unknown to the incumbent at that time what the new specification will be. We have to treat everybody fairly. In applying for the new competition, the incumbent starts with a blank sheet of paper, although it has the benefit of the experience that it has gained from running the contract previously. The process has to be open, fair and transparent, so no weighting is given to any incumbent in any procurement process.

**Liam Kerr:** My final question on procurement and value for money is about subsidies. The Audit Scotland report says that, between 2007 and 2017, the subsidies to the CHFS contract went up by 185 per cent and the subsidies to the Gourrock to Dunoon contract went up by 148 per cent. As we heard, in the latter case, the passenger numbers halved. However, on the northern isles service, the subsidies went up 3 per cent overall, although they have actually decreased 24 per cent since 2012, while there has been a 20 per cent passenger increase since 2013. What lessons are being learned from the northern isles contract for the other contracts? At the end of the day, we are talking about taxpayers' money. To return to my previous question, the incumbent in the northern isles service appears from those figures to be doing a fantastic job. What does that count for?

**Graham Laidlaw:** That is more of a procurement question. The northern isles operator is doing a great job, and I am sure that Tavish Scott will support that comment. Clearly, CalMac is doing a great job on the Clyde and Hebrides ferry service. However, as Roy Brannen and Graham Porteous said, at the end of the contract there is basically a clean sheet. Clearly, the knowledge and expertise that the operator has gained can be brought into the bid and it can offer innovation and change, because it has been on the ground doing that. Clearly, the incumbent has better insight than anyone else as to how the services work.

**Liam Kerr:** I want to know why there are virtually no subsidies in the northern isles and what subsidy there is is decreasing, yet subsidies are rocketing for the Clyde and Hebrides and Gourrock to Dunoon services.

**Graham Laidlaw:** Clearly, we will keep looking at that matter. On the bids for the Clyde and Hebridean Ferry Services and CHFS 2, CalMac came in substantially lower than the general trend over the past several years, so we think that there will be a better trajectory going forward.

**Roy Brannen:** I think that I know what you are getting at, but I do not think that that issue is linked to procurement per se. The supplier in the

northern isles bid for the CHFS contract, but it did not submit a compliant bid, so we are not clear on whether any efficiencies from its northern isles contract would have materialised in the CHFS contract. All the bids must be treated absolutely independently—they must be open, transparent and fair to each participant in the competition.

**Alex Neil (Airdrie and Shotts) (SNP):** I return to the issue of the pension fund. I want to check whether I have got it right. The employee puts 6 per cent of their salary as their contribution to the pension fund and the employer puts in 30.8 per cent. Is that right?

**Roy Brannen:** Yes.

**Alex Neil:** On top of that, the taxpayer puts in £4.1 million a year. Is that right?

**Roy Brannen:** To close the gap.

**Alex Neil:** Between the 30.8 per cent and the £4.1 million, taxpayers probably pay 50 per cent of employees' salaries as a contribution into the pension fund. Meantime, the pension fund deficit is rising. What is going wrong here? This is a mess, is it not? Taxpayers are being ripped off, are they not? Maybe you can enlighten me, but I certainly do not know of any other pension scheme in either the private sector or the public sector where that percentage of contribution is made by any employer—there is at least a ratio of 6:1 or 7:1 between the employer's contribution and the employee's contribution.

**The Convener:** Who is going to answer that?

**John Nicholls:** I will attempt to answer that. As I have said, I am not a pensions specialist, so forgive me if I cannot give as complete an answer as I would like to.

The advice that I have been given in my engagement with the trustees and with colleagues from the Scottish Public Pensions Agency is that part of the deficit amount is down to a variety of other factors that are not directly connected to the contributions that are made by employers, employees or, indeed, the Government. I have mentioned that those factors include the performance of the funds that the pension trustees or managers are investing in. My understanding is that there has been a particular issue across the piece over recent years that relates not just to the CalMac pension scheme but to others.

As I said, there are also—

**Alex Neil:** What is the particular issue that you are referring to?

**John Nicholls:** I am getting into financial services territory with which I am not totally comfortable. I understand that the performance of some gilts has not been what was originally

projected, which has had an effect on the overall amount of the deficit.

It is a complex picture, but it is reassuring that the pensions regulator is comfortable with the trustees' repair plan—and that plan is assisted by the money that the Scottish Government is putting in.

**Alex Neil:** Basically, the reasons for the deficit and why it is rising are to do with the investment strategy and not because of the additional liabilities as a result of the increase in the number of retirees.

**John Nicholls:** Again, it is a multifactorial position. The terms of the scheme, which Audit Scotland refers to, are an element that may need to be examined at some point in discussions with the various stakeholders—indeed, that point is accepted.

Our overall long-term objective, which I think is shared across the piece by employers and employees and their representatives, is to have a scheme that is sustainable, affordable and fair to everyone—and that is what we will work to do when the triennial evaluation is known and that work is finalised.

**Alex Neil:** There are clearly two issues here. One is on whether employees should pay in more than 6 per cent, given the amount of money that the taxpayer and the employer put in, and that is a fair question. I am the first to protect workers' rights, pensions and all the rest of it, but that seems to be way out of kilter with anything that I have ever heard of in the public or private sector. Is it not time to review that?

I realise that my second question is a detailed one that you might not know the answer to, and that the committee might have to write to you to get the answer. If that is the case, just say so. Who are the trustees and who are their professional investment advisers?

**John Nicholls:** The trustees are made up of representatives of the employers, who in this case are CalMac and Caledonian Maritime Assets Ltd, and—from memory—two or three employee representatives from the trade unions. There is an independent chair of the trustees. Currently, that is Grenville Johnston, who is a former chairman of Caledonian Maritime Assets Ltd and Highlands and Islands Airports Ltd. He is also the former president of the Institute of Chartered Accountants of Scotland. Another trustee is David McGibbon from David MacBrayne Ltd, who has significant pensions experience. They are a fairly expert bunch.

**Alex Neil:** Do they have a team of professional advisers?

**John Nicholls:** They have actuarial support from a commercial actuaries firm.

**Graham Laidlaw:** It is Aon Hewitt.

**Alex Neil:** That is an area that the committee might need to pursue a bit further, because we are here to represent the taxpayer and there are aspects that, at face value, look like a rip-off of the taxpayer. I might be being unfair, so I am prepared to be persuaded, but it is quite a worrying situation.

Let us move to the budgets. My understanding is that, as things stand, your budget this year will increase by £59.5 million from £181 million, which is a 32 per cent increase. Given the context, in which budgets are being cut for many other services—as MSPs, we all deal with that every day—what is the additional £59.5 million for?

**Roy Brannen:** The budgets for ferries are quite lumpy depending on when infrastructure and vessels come on-stream. If you split it into two, there is an element of revenue, of which there is a small increase this year, and a larger increase in capital, which is in several parts. It is for the continuing build-out of ferries 801 and 802, the development of new vessels, and some infrastructure works around two ports—Graham Porteous can give more detail on that—and there is also an allowance for securing the northern isles ferries from the Royal Bank of Scotland, which we are in a dialogue with at the minute. That is why there is quite an increase.

**Graham Laidlaw:** It is nearly all on capital.

**Alex Neil:** Is it?

**Roy Brannen:** Correct. It is only 4 per cent on revenue.

**Alex Neil:** It would be useful if the committee could get a note of what—

**Roy Brannen:** We can provide you with the split.

**Alex Neil:** A note on the £181 million budget and the £59.5 million increase would be useful, as it seems like a very big increase given the context of the budgetary decisions that are being made. However, if it is capital, that explains a lot.

**Roy Brannen:** We will provide you with the split. Obviously, with the commercial discussions that are on-going, I cannot identify exactly what sum we have allowed for the northern isles ferries, but we will provide the split for the other elements.

**Alex Neil:** Later this year, the United Kingdom will, it is hoped, finalise a deal on Brexit. Transport Scotland's procurement is very much governed by single market rules that force you to go out to tender at certain times and to follow certain rules. Has any scenario planning been done by the

Scottish Government or by Transport Scotland to look at what beneficial changes could be made, depending on whether we are still governed by those rules?

**Roy Brannen:** In general terms, we have looked at transport across the piece—across all the legislation and all the elements that may or may not have an impact. As you will be aware, the uncertainty is that we do not yet know what is going to happen. John Nicholls can say a little bit more about our analysis of the specifics around ferries. In the short term, there will be no change.

10:45

**John Nicholls:** You will be aware that we are undertaking a policy review of the procurement of our ferry services. Ministers have been quite clear that their preference is not to have to tender for services in the future. That work is on-going, and the Minister for Transport and the Islands made an announcement on 20 December about some findings that are emerging from that work.

One of the key issues in that work is the state aid requirements that currently apply to our tendered ferry services. Those state aid rules emanate from the European Union, and the Commission is the arbiter, guardian and custodian of those rules. The point of the review of procurement is to see whether it is governed by the existing rules. We will work that through, and we are currently engaged in seeing whether we can build a case that those state aid rules can be met in circumstances in which the services are not tendered. That will be quite a long-term piece of work—we do not anticipate its concluding very quickly—but it is progressing and we are engaging with the European Commission on it.

As the minister's report, which was published on 20 December, set out, we are working on the basis that, in the post-Brexit situation—whatever that might be; we are conscious that that is very uncertain at this stage—the current state aid and EU arrangements will continue to apply at least in the short to medium term. Those arrangements might be governed by other institutions—we will need to keep an eye on that as the process goes on—but we are working on the assumption that they will be in place for at least a while. We are looking at what the various options might be within the current arrangements.

Further than that, I am afraid that my crystal ball is a bit faulty on the matter, and I really cannot see where it might end up. To some extent, we will have to keep the situation under review. That is the position.

**Alex Neil:** It is good that you are doing scenario planning. My final question relates to that. Is it the

case that, if we remained inside the single market as it is, we would not be allowed to tender?

**John Nicholls:** Potentially, yes.

**Alex Neil:** How do we get around those rules?

**John Nicholls:** As ministers have set out, two things need to happen. First, we must be clear that our in-house operator, to which the services would be directly awarded, meets the Teckal exemption—the operator must be controlled by the Government and 80 per cent of its functions need to be for the Government. We are pretty clear that, with some small changes, that can happen.

The second, perhaps more challenging, hurdle is that we meet the state aid requirements. We need to be able to demonstrate that the amount of funding or compensation that we give to our in-house operator is the same as we would give to an economic operator through a tendering process. We are building that case and doing some work on benchmarking what the costs of those operations would be. We are engaging with the European Commission on all of that.

Ministers have set out other tests on the wishes of the communities who are being served and the value for money that we will need to demonstrate in either scenario. There is still work to be done, and we are not prejudging the outcome of that exercise—as we have heard today, there is evidence that savings can be made through tendering, but we want to examine all sides of the argument.

**Alex Neil:** I presume that meeting the state aid rules would require a significant cut in subsidies.

**John Nicholls:** Not necessarily. When we have gone out to tender, we have specified clearly the timetables, fares and routes. We would want to do that under any scenario. It will cost what it costs to provide. We want to get the best value for money, but—

**Alex Neil:** Take, for example, the Gourock to Dunoon route. An existing private operator that is not subsidised and a public sector operator operate side by side. How would you meet the state aid rules if you wanted to increase the subsidy in that situation?

**John Nicholls:** At the moment, we are tendering that service because that is the only way in which we can deliver ministers' aspirations for a vehicle and passenger service. I know that Mr Neil will be very familiar with that scenario.

**Alex Neil:** I am, indeed.

**John Nicholls:** We will have to let that tender run and see where it takes us.

**Tavish Scott:** I assure Mr Neil that, if he wants a lecture on the Teckal exemption, which is an

arcane point of European law, Iain Gray is very knowledgeable about that from his previous career.

Mr Brannen spoke about the tendering that may or may not take place. He also said that all will be the same until at least 2021, because of the transitional periods following the UK's leaving the EU on 2019. Can I therefore take it that the northern isles tendering exercise will continue apace? We do not want to reach 2021 and find that nothing has happened, because continuing with the tender is important for the company that is offering the service and for getting value for the taxpayer.

**Roy Brannen:** Yes, that is the case.

**Tavish Scott:** You are aware of the considered view in the northern isles, that going back in-house is not the best way forward. There is a very strong view, particularly in the freight industry, which is the economy and the basis of the figures that Liam Kerr mentioned in relation to the reduction of subsidy—the amount has come down because so much freight is being carried—that tendering is a good thing.

**Roy Brannen:** The policy review acknowledges that. This week, the minister has written to everybody, seeking their further views on what the community wants to see from the approach that is taken for the northern isles.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** I have a couple of questions. One is on the economic impact analysis; the other is on long-term strategic planning. The impact of the RET reduction, particularly for the Ardrossan to Arran service, has been significant and very positive. Kenny Gibson, the local member, has told me that we have seen a 50 per cent increase in traffic on that route, a 20 per cent increase in passenger numbers and a consequent impact on tourism and so on. Are you planning to do any economic impact analysis of that route, and of all the other routes, particularly to assess—[*Interruption.*]

**The Convener:** A wee bit of order for Mr Coffey.

**Willie Coffey:** That would be appreciated, thank you.

**Iain Gray (East Lothian) (Lab):** Apologies.

**Willie Coffey:** Where was I? Are you planning to do any economic analysis for all the routes? When might we see the results of that?

**Roy Brannen:** There are two parts to that question. The first is about the evaluation of RET being introduced on that route. We have done that evaluation and it was published earlier this year. It is on our website, but I can supply it to the committee. It clearly signals the benefits and disbenefits that are felt by the community. That

builds on the previous two evaluations that were done as we started to roll out RET.

This year, given that we are now three years in, a much wider piece of work will be done on RET generally to understand its benefits and disbenefits. People acknowledge that RET has had an impact on a range of things. It has generated an increase in the number of vehicles. Could that increase be linked to an impact on the asset, increasing ferry running, fuel, servicing and all the other things?

The RET evaluation that we will undertake this year, which we are spec'ing out at the moment, will take a much broader perspective of what the benefits of RET are and, more important, what the long-term forecast is. RET is a difficult thing to forecast the effect of. It is possible to forecast what effect it might have in the first year, but, thereafter, it is quite elastic—the situation can change, because a number of other factors are involved.

That links to your second question about a long-term vision and the economic worth of ferries more generally, which I will deal with in several parts. The ferries have been funded by the Government since the 1960s, but our team is the first to have tackled a review of ferries, which we did when we produced the ferries plan back in 2012. The plan was clear in its intention, which was to create social inclusion on the islands, better connectivity, economic growth and improved journey times. It contained all the indicators that we wanted to measure, but we have not yet got to the point of asking how that plan, which runs until 2022, and all the investment that has gone into it have been translated into an impact on rural and island communities.

For me, the central question in the Audit Scotland report is about value for money more generally when it comes to ferries. There are three parts to that: spend less, spend well and spend wisely. On the spend less part, we can demonstrate that, through the CHFS contract and the northern isles ferries, which have been mentioned a couple of times, less resource can be put in for those services.

The spend well part relates to the strategic plan up to 2022, plus the vessel replacement and deployment plans that come out every year. The team and the strategic group look at each of the pressures across the network and try to identify the right investment to meet capacity and demand across the network. The spend well part is covered by the way in which the team approaches that.

The spend wisely part is about how all that investment links to economic output and social and economic impacts. That is the part that we need to strengthen this year by taking a different

approach to the second plan, which will be required from 2022. In my letter to the committee, I included two diagrams. One was on the journey from where we were to where we are now; the other was on the journey that we need to take to get to where we want to go. That will involve bringing all the studies together into a single comprehensive strategy that looks at not just the inputs and the outputs but the outcomes, which as just as important.

A couple of studies have been done on the economic worth of the maritime sector in Scotland. We did one of them and Oxford Economics did the other one back in 2015. It indicated that, in 2013, the sector provided about £1.8 billion-worth of added value to the Scottish economy. Globally, ferries play a part in the value that is added to the economy, but we have not carried out such an analysis on a network-wide basis.

I undertook a piece of work on the strategic growth sectors and transport's contribution to them. With regard to ferries, we looked at case studies involving Diageo, the Scottish Salmon Company and a preserves company whose indicators were to do with reliability and capacity issues. At the moment, we tend to cover such issues through the vessel replacement and deployment plan.

When it comes to how the communities on the islands benefit from connectivity, I see the ferries as sea bridges rather than ferries in that they provide access to healthcare services, education services and leisure facilities. The ability of island communities to access all the things that everyone on the mainland enjoys is a clear measurement that we want to encompass in the work that we do.

The second area that we want to cover is business. I am thinking about access to export markets for goods that have a short shelf life. When it comes to our world-class food and drink sector, we need to capture the outcome element through the use of a metric that identifies what that means, which should also cover goods that go back to the islands. The third part of that work is about tourism.

Without writing the study and the strategies now, if we brigade the approach that we take around such outcomes and have a measurement process that stretches from input to output to outcome, we will be able to satisfy the core question that the Audit Scotland report poses, which is whether the £209 million a year that is provided represents value for money from the point of view of what the rural and island communities get out of it.

That was probably a longer answer than you were looking for.

**Willie Coffey:** No—it was very helpful. When might we expect all that work to come together?

11:00

**Roy Brannen:** We have engaged with our analysts and economists to map out how that will happen. The traffic model for Scotland does not include ferries, so it will be important to see whether we can forecast what the future might be. Our economists are wrestling with the question of how to link the direct input into ferries to the particular elements on the islands—Islay is a classic example, as it has the whisky distilleries.

There is a bit of work to be done to scope that. I do not want to commit to too much, but I hope that, by the end of this summer period, we will be in a strong enough position to come back and show you the piece of work that we are going to take forward. We have had a conversation with Fraser McKinlay and Graeme Greenhill on their input to the work, which will be extremely beneficial.

**The Convener:** For clarity, are they from Audit Scotland?

**Roy Brannen:** Yes. Audit Scotland's input to that work will be extremely beneficial and will enable us to come up with a value-for-money assessment of our ferries.

**Willie Coffey:** I hope that we will be able to see that on a route-by-route basis in your report.

**Roy Brannen:** That is where it becomes quite difficult. The fourth E is for equity. It is fine for us to assess the contribution of ferries on a network basis but, when we start to break it down on a route-by-route basis, the lifeline ferries, by themselves, will probably not contribute to the same degree as ferries contribute to an island such as Islay. Audit Scotland has helpfully pointed to the fact that the preference is for an assessment on a network-wide basis rather than route by route.

**John Nicholls:** We also want that kind of assessment to be done, as Audit Scotland has suggested, within the parameters of the national transport strategy review and the strategic transport projects review that will follow that. We obviously want to make progress as soon as we can, but we need to be sure that it is all joined up and coherent. The assessment must be seen in terms of the wider contribution of transport to the economy, not as something that stands by itself.

**Tavish Scott:** I have two brief questions, the first of which relates to the summary of the Audit Scotland paper. In paragraph 2 of the key messages, it says:

“the condition of about half of the harbours used by Transport Scotland's ferry operators is unknown.”

That must be a significant worry for Transport Scotland. Will the assessment exercise mentioned in the response that has just been given to the committee include solving that problem?

**Roy Brannen:** Yes. There is a parallel with the piece of work on road maintenance that I previously came before the committee with and in which we undertook to understand the totality of the state of the asset, the international benchmark of what we want to achieve with our road asset and the long-term investment plans to get us there. We do not have that yet with the ferries. Back in 2010, there was an exercise to look at all 52 harbours—or 59, if we include the Northern Isles, Gourock and Dunoon. The test now is to do an exercise similar to that for road maintenance across all the harbours, because we need to understand the totality of the asset—vessels and infrastructure—before we can start to plan.

**Tavish Scott:** If the boards of Lerwick Port Authority or Aberdeen Port Authority did not know the condition of their harbours, they would all be sacked. Why is this the case?

**Roy Brannen:** They know the condition of their harbours. Graham Laidlaw works with them and has close links with them. In fact, he is going somewhere tomorrow to talk about the very same thing—

**Tavish Scott:** Yes, but I am talking about the people who are responsible for those harbours. What I cannot understand is who is responsible for all the harbours that we do not know the condition of. It does not make sense.

**Graham Laidlaw:** I think that that is known. We have relationships with Lerwick, Kirkwall, Aberdeen and—

**Tavish Scott:** They are not the ones that I am talking about—I am talking about the ones that Audit Scotland has said we do not know the condition of. Why not?

**Graham Laidlaw:** We do not have a bit of paper that sets out the condition of every harbour. CalMac and CMAL know the condition of their assets, and Highland Council, Argyll and Bute Council, the trust ports and the like know the condition of their facilities across the west coast. Kirkwall, Lerwick and Aberdeen Port Authorities know the condition of their facilities, and trust ports have to manage and maintain their assets. We work with them on that; we just do not have it all written down on one bit of paper.

**Roy Brannen:** Audit Scotland's point was that Transport Scotland does not know the totality of the condition of those 52 harbours.

**Tavish Scott:** I am with you. I am sorry—I did not appreciate that.

**Roy Brannen:** The 27 authorities that own the harbours will know.

**Tavish Scott:** And you can assure me of that.

**Roy Brannen:** We want to bring all of that together so that we understand the totality of the assets that are being used by the vessels.

**Graham Laidlaw:** We engage closely with the authorities. Tomorrow, I am going to talk to Argyll and Bute Council about the condition of its ports and harbours, because it has three or four key facilities such as Craignure, Port Askaig, Rothesay and so on. They are all council-owned facilities, but they are essential to delivering Clyde and Hebrides ferry services.

**Tavish Scott:** That is fair.

My other question is about the additional letter from Audit Scotland that the committee received and which mentions the freight fares review. When will that review conclude? After all, we have waited a long time for it.

**John Nicholls:** We are very conscious of that. It has been a lengthy process, but we have had very good engagement with stakeholders—

**Tavish Scott:** For four years now.

**John Nicholls:** I absolutely acknowledge that. Ministers are considering it, but I am afraid that I cannot give you a timescale.

**Tavish Scott:** Will it conclude in 2018?

**John Nicholls:** I am afraid that I cannot commit on behalf of the minister, but the matter is being actively considered.

**Tavish Scott:** All right. Thank you very much.

**Bill Bowman (North East Scotland) (Con):** I know that we have already discussed pensions, but I want to go back to the issue. You have said that you are waiting for the triennial valuation and explained the issues that face the trustees, the stock markets and maybe even gilts. It seems to me that, for every three employees, you are paying for a fourth ghost employee who adds no value. Is that not a more current business issue that you should be dealing with instead of waiting for a report to discuss with trustees? What are you doing to restructure your costs now in order to free up those resources?

**John Nicholls:** I am afraid that I cannot add much more to my previous answers. We regularly engage with the employers and the trustees, and we recently had discussions with CMAL and CalMac about both of those things. There is acknowledgement that the matters need some attention, and we want to make the scheme sustainable, affordable and fair. We need to be sure that we have the right data and that



everybody is comfortable with the assumptions. However, I am afraid that I cannot say more than that at this stage.

**Bill Bowman:** Is that a confidentiality matter, or are you just being very passive in your approach?

**John Nicholls:** I do not think that we are being passive. We have to work from the most up-to-date information that we have until we get the valuation, which we do not have yet.

**Bill Bowman:** I would have expected you to have estimates and to be able to see where you were going. You have a known problem. Why are you having to continually wait? I have heard the same thing in other companies. It is nice to be able to say, "We don't have this yet, but there's a valuation coming"; nevertheless, you have a fair idea of the issue and the situation that you are in. Should you not be doing something from a business perspective?

**John Nicholls:** You are right. Obviously, there is a body of historical evidence and projections that is, in the first instance, the responsibility of the trustees to consider. We can look at that but, in the final analysis, it will come down to a decision about the affordability of the pension scheme and how it can be sustained. That raises quite challenging questions for employers, employees and their representatives as well as the Government on behalf of the taxpayer.

**Bill Bowman:** Is it you or somebody else who takes the decision on that?

**John Nicholls:** Ultimately, that is a policy decision for ministers. The day-to-day administration of the scheme is carried out by the trustees and the employers.

**Bill Bowman:** Do ministers or you decide on the scheme and any changes to it?

**John Nicholls:** Historically, any changes to pension schemes have been negotiated between employers and employees, but it is fair to say that, given other Scottish Government commitments to fair work, any future consideration of those issues would be done on a partnership basis. I think that the Government would want to be involved in that, but we do not yet have those forums in place.

**Bill Bowman:** Are you getting best value from the scheme?

**John Nicholls:** I am afraid that I am not in a position to answer that question.

**Bill Bowman:** But speaking as a businessperson?

**John Nicholls:** I am not an employer involved in that particular issue.

**Bill Bowman:** Do you do any international benchmarking of the efficiency of your operations? Do you look at what happens in other countries that have ferry networks?

**Graham Laidlaw:** We have good relationships with a number of countries, but our business model is entirely different. At the back end of last year, we had the Swedes over to talk about how they support their ferry services; I have been to Corsica and its ferry operator was over here a year or two ago, too; and we have had delegations from all over, including North America. We keep an eye on how things are done elsewhere; for example, in the expert ferry group, we have done a lot of work on and discussed how Norwegian ferry services are run and supported. As I have said, though, the business models are completely different. By and large, Scandinavian countries have more commercialised services, although in Sweden, the state basically runs all the ferry services for free.

**Bill Bowman:** Do you drill down into the operating costs?

**Graham Laidlaw:** Yes. I would expect that to be an area of activity that we will look at in the procurement policy review. In order to benchmark your services, you need to benchmark against what you do yourself. Clearly, the obvious thing to do would be to look at how other Governments support ferry services in other parts of the world.

**Bill Bowman:** Does any other operator have best practice that you might want to align with?

**Graham Laidlaw:** I do not think so. We have an entirely different business model. The tendering for the services is done across Europe, but the assets are managed and maintained by the state—in this case, through Caledonian Maritime Assets Ltd. That means that ministers can continue to invest in and improve the services while knowing that the infrastructure is in place.

Several years ago, we had a lot of dealings with the Irish Government. Every time it went to tender, it was basically over a barrel, because the tenderer tended to walk away at the end and take its assets with it. As a result—and this brings us back to Liam Kerr's earlier point—only the previous incumbent would be appointed.

There are a number of models, not all of which are perfect. Given the circumstances that we are in, I am pleased with how we run our ferry services.

**Liam Kerr:** I have a couple of questions about RET. I think that Mr Laidlaw said in response to Mr Scott's question that the post-tender changes to timetables caused by meeting increased demand as a function of RET—

**Graham Laidlaw:** And prime-time fares.

**Liam Kerr:** Okay.

**Graham Laidlaw:** There have been quite a number of changes to the operating circumstances—

**Liam Kerr:** Let me ask a question, if you would.

**Graham Laidlaw:** I am sorry.

**Liam Kerr:** I am talking about what I heard in response to Mr Scott. Has RET cost the taxpayer £128 million? Presumably, you are going to say no, because there is something else in that sum. What has RET cost the taxpayer with regard to that timetable change? Was that budgeted for?

**Graham Laidlaw:** Yes, it was budgeted for—

**Liam Kerr:** When it was introduced?

**Graham Laidlaw:** Yes. We had an RET line in our budget for several years, and it disappeared only in the past couple of years, as it is now part of the main budget; it is no longer a pilot, a trial or a test. It is really just a fares regime.

**Liam Kerr:** How much was budgeted for the increase in traffic that led to the timetable change? What is the figure for that?

**Graham Laidlaw:** I think that an assessment of RET put the cost at between £14 million to £16 million a year. That was not for all the network—quite a lot of changes happened at the back end of the roll-out. Although that does not add up to that £128 million, multiplying any of those sums by eight—after all, it is an eight-year contract—clearly gives you a large number.

**Liam Kerr:** My final question is on a matter of concern that I have raised before. The Audit Scotland report says that passenger numbers have been constant but that vehicle carryings are increasing. Mr Brannen, you said that you are looking to evaluate various things. As part of that work, will you be evaluating the impact of increased car numbers on the island communities? I am talking about the impact on the quality of the road and the environment, including air quality, and the cost that will be placed on local authorities. Will you be evaluating all of that?

**Roy Brannen:** As I have said, we are developing the review specification now, and we will need to consider that issue. There are clearly difficulties in directly linking a vehicle with damage on an asset in any part of the network, whether it is on an island or on the mainland.

I would caution against saying that any increase with regard to ferries—or on the sea bridge across to the island—has resulted in a deterioration of the asset. In fact, cars do less damage than commercial vehicles. We need to look carefully at cause and effect and the categories that we can realistically measure in accordance with the study.

**Liam Kerr:** But will you be doing that exercise?

**Roy Brannen:** We will be evaluating the whole scheme this year. The evaluations that have been done to date—I have referred to the evaluation on Arran that was published at the start of the year—have included some assessment of why vehicle numbers have increased more than foot traffic. The flexibility given by RET has allowed individuals to take their vehicles across to the mainland, do some shopping and come back—and vice versa.

The full evaluation must look at a broad spectrum of what we want to cover. At this stage, I would not want to prejudge any cause-and-effect linkage with the impact on assets, air quality or anything wider than that.

**The Convener:** Thank you very much indeed for your evidence this morning, gentlemen. I now close the meeting to the public.

11:15

*Meeting continued in private until 11:28.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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