

# **TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE**

Tuesday 6 May 2008

Session 3

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## TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

### 9<sup>th</sup> Meeting 2008, Session 3

#### CONVENER

\*Patrick Harvie (Glasgow) (Green)

#### DEPUTY CONVENER

\*Cathy Peattie (Falkirk East) (Lab)

#### COMMITTEE MEMBERS

\*Rob Gibson (Highlands and Islands) (SNP)  
\*Charlie Gordon (Glasgow Cathcart) (Lab)  
\*Alex Johnstone (North East Scotland) (Con)  
\*Alison McInnes (North East Scotland) (LD)  
\*Shirley-Anne Somerville (Lothians) (SNP)  
\*David Stewart (Highlands and Islands) (Lab)

#### COMMITTEE SUBSTITUTES

Alasdair Allan (Western Isles) (SNP)  
Richard Baker (North East Scotland) (Lab)  
Gavin Brown (Lothians) (Con)  
Tavish Scott (Shetland) (LD)

\*attended

#### THE FOLLOWING ALSO ATTENDED:

Stewart Stevenson (Minister for Transport, Infrastructure  
and Climate Change)  
Karen Whitefield (Airdrie and Shotts) (Lab)

#### THE FOLLOWING GAVE EVIDENCE:

Captain Ron Bailey (Clydeport Ltd)  
Professor Alf Baird (Napier University)  
David Binnie (Transport Scotland)  
Ben Carter (VisitScotland)  
Professor Neil Kay  
Iain MacLeod (British Ports Association)  
Chris Maguire (VisitScotland)  
Guy Platten (Caledonian Maritime Assets Ltd)  
Malcolm Reed (Transport Scotland)  
Andy Steven (VisitScotland)

#### CLERK TO THE COMMITTEE

Steve Farrell

#### SENIOR ASSISTANT CLERK

Alastair Macfie

#### ASSISTANT CLERK

Clare O'Neill

#### LOCATION

Committee Room 1



# Scottish Parliament

## Transport, Infrastructure and Climate Change Committee

*Tuesday 6 May 2008*

[THE CONVENER *opened the meeting at 13:30*]

### Railways

**The Convener (Patrick Harvie):** Good afternoon and welcome to the ninth meeting this year of the Transport, Infrastructure and Climate Change Committee. I remind all present that mobile phones and other such devices should be switched off. It is impressive that even the deputy convener has her phone switched off today.

The first item on our agenda is the extension of the First ScotRail franchise. The committee will be able to hear more about the background to, and implications of, the decision to extend the franchise with First ScotRail, and the circumstances around the decision's timing. We will also be able to ask questions about the recent announcement that Transport Scotland will assume management of the Glasgow airport rail link project.

I welcome to the meeting the Minister for Transport, Infrastructure and Climate Change, Stewart Stevenson, and his officials Malcolm Reed and David Binnie. Thank you for joining us. I invite the minister to make his opening remarks.

**The Minister for Transport, Infrastructure and Climate Change (Stewart Stevenson):** Thank you, convener, for the invitation to answer questions on the Glasgow airport rail link management transfer and the decision to extend the First ScotRail franchise.

I will speak about GARL first. Reviews are taken at key stages for each major infrastructure project: the GARL project is at a key stage and tenders for significant branch-line works will commence shortly. Transport Scotland, through a due-diligence review of the project, has determined a structure to make best use of the core skill sets and experience within the delivery organisations.

The delivery partners agree that Transport Scotland's having overall responsibility for direction and governance will ensure that the project will continue to be delivered efficiently and effectively. Transport Scotland and Strathclyde partnership for transport officials are working to facilitate the necessary transfer in mid-May 2008, which will keep the programme on schedule.

Moving on to the decision to extend the First ScotRail franchise, I was pleased to announce the

extension on Thursday 3 April. The deal creates £70 million for reinvestment in rail services, secures initiatives that will deliver existing commitments and additional schemes out to 2014, adds a profit cap to guard against franchisee profiteering and secures performance levels for the remainder of the franchise.

The revenue share provision in the contract that was let in 2004 was set at a 50:50 split at 102 per cent of target revenue, and at an 80:20 split in the Government's favour at 106 per cent of target revenue. The franchisee greatly exceeded revenue targets in respect of revenue share provision, so the 80:20 split occurred during 2007-08 and would remain for the rest of the franchise's life. Under those circumstances, the franchisee's focus would be on lowering costs and not growing the business.

The Scottish Executive and the franchisee have been in discussion since autumn 2006. It is worth noting at this stage that the deal took one and a half years to complete, compared with the four years that it took to complete the previous refranchise exercise.

The new revenue share sees the 50:50 split commence at 110 per cent of target revenue, and the 80:20 share commence at 114 per cent. A similar revision was made to reduce Government's exposure to the downside split, which went from 98 per cent to 94 per cent for the 50:50 split, and from 94 per cent to 86 per cent for the 80:20 split. Legal drafting of the agreement commenced in March 2008, but the option to extend the contract has existed since the franchise was let in 2004. This, of course, is not a refranchising; rather, the extension represents the award of a provision within the existing contract, on which there was wide consultation. We acted within restrictions as defined in the Financial Services Authority's definition of insider trading. We are not seeking to protect FirstGroup plc's share price, but to protect people by not divulging sensitive information.

Key stakeholders, including the committee, received notice as early as possible on the day of the announcement. Nonetheless we will, as appropriate, engage with stakeholders on the reasoning and benefits of the decision to extend the contract and on how best the secured initiatives can be implemented. The engagement that is about to commence will be within the boundaries of our key policy commitments in the national transport strategy and "Scotland's Railways", which were both consulted on widely.

The franchisee has exceeded growth and performance targets in several areas of the contract. The 80:20 revenue split had started, so to delay decisions would have made the franchisee less incentivised to grow the business. The award of the extension secures performance

levels now, releases £70 million for reinvestment in public services now and allows initiatives to be implemented now.

The combination of waiting for the conclusion of Audit Scotland's report with a fall in revenue growth could have reduced the deal's value by about £4 million. That figure does not take into account the loss of longer-term benefits in franchise 3. The conclusion of Audit Scotland's report will help in managing and maximising the franchise and looking for opportunities and options for the future. I understand that Audit Scotland has revisited that report's remit and that it will review all the amendments that were made through the extension agreement, the process—including specification and requirements—of the award, whether requirements were met, and the timing of the award.

The extension award process took 18 months. A wait until October to commence it could have resulted in a shorter extension criteria period and time pressure on refranchising. The extension has several financial and passenger benefits and will be implemented with no change to the subsidy levels that were set out in the initial agreement. The extension will ensure a more sustainable franchise in the long term, as the incentivised franchisee will continue to grow the business for the remainder of the contract. The deal will also ensure continuity in the planning and delivery of the 2014 Commonwealth games, as rail services are an important part of that. The deal adds to transparency for future bidders or operators by requiring the franchisee to work on a full set of bid and handover information, even when the plans might be to move to an entirely different basis of operation after the end of the franchise.

I thank Mr Harvie for the invitation to give evidence. The changes that I have outlined represent the Government's commitment to build on the levels of improvement in rail services in our country. I am happy to answer questions.

**The Convener:** Thank you. The committee is joined by Karen Whitefield, whom I welcome.

We have several questions. I will begin by addressing a few questions that you have been asked in the chamber, the answers to which some members felt were not fully clear. Who initiated the discussion about the possibility of extending the franchise? Was that done by FirstGroup or the Scottish Government? When did that happen?

**David Binnie (Transport Scotland):** The possibility did not emerge on a precise date. Through our monitoring of the franchise and an equivalent process that FirstGroup and First ScotRail have for understanding what is happening in their business, a set of issues emerged. It became clear to us that the franchisee

was doing extremely well—far better than had been expected. The figures for passenger growth were pretty dramatic and were well up, to the extent that more than 80 million passenger journeys are expected this year, and First ScotRail's punctuality was up by 50 per cent against a 2 per cent year-on-year increase target. First ScotRail was doing extremely well and the franchise was running ahead of itself. Our concern started to be about how the company would sustain that progress and what incentive it had to do so.

If the committee will indulge me, I will run through something that will be clear at its conclusion. If First ScotRail wants to invest £1 in a new initiative, a fresh £1.10 of revenue must be generated to see a 10 per cent profit. However, under the 80:20 revenue share, FirstGroup realises only one fifth of the money that is collected as fresh revenue. Under that model, a fresh £1.10 of revenue returns only 22p to it—a loss of 78p in the pound. To break even, it needs £5 of new cash to come in and to make a 10 per cent target profit of a further 50p. That is the crux of the matter. Every new £1 that is spent needs to bring in £5.50 of new revenue for the franchisee to make 10p profit. The 80:20 split that we expected at the end of the franchise occurred pretty early on, so the incentive was starting to disappear. We and ScotRail understood that to be happening.

**The Convener:** Forgive me for interrupting. There must have been a point at which a decision was made to begin formally negotiating the detail of a franchise extension. When did that happen and how long were the negotiations?

**David Binnie:** The situation became clear in the autumn of 2006. We went to ministers in December 2006 and received agreement to renegotiate revenue share and extension of the franchise with First ScotRail and to secure initiatives and investments from it in return.

**The Convener:** So, in December 2006, ministers gave permission to begin the negotiations. When did they begin?

**David Binnie:** Negotiations commenced at that time.

**The Convener:** They commenced immediately and lasted until when?

**David Binnie:** Until their fruition was announced earlier this year.

**The Convener:** So it took almost a year and a half to negotiate the details.

**David Binnie:** Indeed.

**The Convener:** Another issue that has been raised is what the implications would have been of a delay in concluding the negotiations and making

the announcement. As far as I recall the minister was unable to answer on the cost to the taxpayer—or the opportunity cost—of a delay to the decision. In fact, you were not able to say whether you had asked your officials for that information. Are you able to give us answers to those questions now?

**Stewart Stevenson:** In my opening remarks, I said that we have been able directly to identify a cost of £4 million that would have arisen if we had waited for the Audit Scotland report. However, the matter is more fundamental than that and it is a bit more difficult to provide exact numbers because, having hit the 80:20 split, it was perfectly clear that First ScotRail would cease to market the service, which would have lost us the opportunity to continue the significant growth in passenger use of the rail network. Therefore, there would have been a much wider loss in the public policy of achieving modal shift and getting more people on our trains, which is substantially difficult for us to monetise in the way that the question perhaps invites.

In our view, if the growth had stopped, that would have reduced the value of the franchise in 2010, when reletting would have taken place. Again, it is difficult for us to express that in monetary terms, but it was clear that, in addition to the cost of time, to which I referred as an estimated £4 million, there were other potentially substantial financial losses. Moreover, given that the impact would have run counter to public policy and that the benefits that we could get from investment—the additional £70 million—were on the other side of the balance sheet, there was a decisive case for ministers continuing the steps that my predecessor had initiated.

**The Convener:** Outside of the Government and FirstGroup, who else was consulted?

**Stewart Stevenson:** We carried out extensive financial modelling, and we used outside consultants to check that the modelling was robust. I am confident that the modelling was robust and appropriate.

13:45

**The Convener:** Beyond the commercial consultants, were any stakeholders consulted?

**Stewart Stevenson:** No. There was, of course, wide consultation on the national transport strategy and on “Scotland’s Railways”; and there was wide consultation when the franchise was first let and when the terms within which we were operating moved forward. Like my predecessor, we moved forward with the process under the powers in our contract with First ScotRail.

**The Convener:** You will know that the decision came pretty much out of the blue for most

people—even for the committee. We received a letter of three paragraphs to inform us about a highly detailed and complex decision that has significant implications. You say that you had not consulted; and, as far as I am aware, the detail behind the decision has not been provided. Were you at all concerned about how that would come across, with the decision coming out of the blue?

**Stewart Stevenson:** The agreement was lodged with the Scottish Parliament information centre on Thursday and has been on the public register since then. The very substantial detail that underlies—

**The Convener:** The decision had been announced.

**Stewart Stevenson:** Correct.

**The Convener:** The information was not available for about a month after the decision was announced.

**Stewart Stevenson:** We wanted to be clear about what parts of the agreement we could publish. Two small areas have been redacted within the agreement for the time being. What we have published shows a level of detail that is quite unprecedented in respect of franchise agreements. By taking the time to ensure that some parts of the agreement could be desensitised and, therefore, be made publishable, we have ended up with a document that will be of great value to the Auditor General, to the committee and to everyone who wishes to see what is in the new agreement with First ScotRail.

**The Convener:** I am sure that, if that is the case, you will have it sent to the committee as well as to SPICe.

In a moment I will allow other members to ask questions, but first we will have a brief supplementary question from Alison McInnes.

**Alison McInnes (North East Scotland) (LD):** The minister said that it was clear that ScotRail would “cease to market” its services. Was that a specific threat from ScotRail, or was it just your intuition that that would be the outcome of not renegotiating?

**Stewart Stevenson:** As David Binnie said, for any investment by First ScotRail in marketing to make any profit, it would need to get £5 for every £1 that it put in. We knew the numbers and, based on performance up to that point, it was clear to us that that was unachievable and that no sensible business would try to achieve it. The preliminary conclusion in that regard was ours.

There was no threat of any kind from First ScotRail. The discussions that our officials had with First ScotRail on the new agreement were, of course, geared towards relieving the constraints

that had been brought about by overperformance, which had not been anticipated when the agreement came into operation in August 2004. Those constraints had to be addressed and corrected. The option to extend the franchise, which had been envisaged by the original agreement and was incorporated in it, gave us the locus to do so.

**Alison McInnes:** Given the SNP's previously stated position, did the Government, when it took control, consider developing a not-for-profit model that could be introduced in 2011, rather than going for the extension?

**Stewart Stevenson:** We thought it prudent to proceed in the manner that we had laid out in our manifesto for the elections of 2007. We wanted to extract best value from the agreement and to explore the options that the previous minister had considered for extending the franchise. It became apparent that the company was delivering extremely well and that we could get £70 million for new investment in our railways. Given that it took four years to put the previous franchise agreement in place, the timescale left us considering that extension of the franchise was far and away the best option.

**The Convener:** For future reference, if "No" is the answer to a question, "No" will do.

**Charlie Gordon (Glasgow Cathcart) (Lab):** I will stick with the fundamental issue that Alison McInnes raised. The minister indicated that one concern that drove the deal was that the franchisee might reduce its commercial efforts as it came to the end of the franchise. Is it not a fundamental weakness in the nature of franchising that if a company is not sure whether its franchise will be renewed it will start to cannibalise as it gets to the back end of a franchise period? It is therefore worth keeping alternatives to franchising in mind.

**Stewart Stevenson:** In the past, the argument has been made for franchises as long as 15 years. Indeed, 15 years was one of the franchise lengths that was considered in the last substantive round of major franchising, in which First ScotRail was the last to be franchised. By extending the franchise by three years, we are not only giving the company an incentive to deliver for the benefit of public transport in Scotland, but are ensuring that the Government is—on the public's behalf—getting value for money and securing new investments in services, including, for example, new services to Shotts.

**Karen Whitefield (Airdrie and Shotts) (Lab):** You pointed out that the consultation process began in autumn 2006. Was Transport Scotland considering all the options, or had a decision been taken in autumn 2006 that the franchise would be extended?

**Malcolm Reed (Transport Scotland):** At that stage, we were not looking at franchising. You will gather from David Binnie's comments that the process arose from monitoring and managing the franchise. We realised that issues were emerging that required more analysis and more discussion. We got a steer from the then ministers that the line that we were following seemed to be appropriate, but franchising was not discussed at that point.

**Karen Whitefield:** So the work that began in autumn 2006 was to examine the options and no decision was taken. If that was the case, when and by whom was the decision taken to extend the franchise?

**Malcolm Reed:** No decision was taken to extend the franchise until recently. The question that we put to ministers was this: Should we pursue negotiation of the option to extend? That option was always contingent on the terms that we could achieve through the negotiation.

**Karen Whitefield:** Can you define "recently"?

**Stewart Stevenson:** We found when we came into office that only a single option was being pursued. Of course, I cannot speak about decisions that were made by previous ministers—it would be inappropriate for me to do so—although officials may be able to help with the specific questions. On that basis, and given that there was less time available than it had taken to put the previous agreement in place, we made the initial judgment that we would pursue the approach that had been started by the previous Executive's ministers. As the negotiations proceeded, it became apparent that it was possible to extract more value for the public purse and to develop Scotland's railways to a greater extent. That led to us finalising figures in March: on that basis, the Scottish ministers decided that we would proceed with extension of the contract, thus delivering on the process that my predecessor had started.

**Karen Whitefield:** You said that the figures were finalised in March. When specifically did you give Transport Scotland a clear indication that you wanted to fulfil one of the options that the previous Executive had considered? If you did so prior to the end of February, why did you tell the Scottish Trades Union Congress and the rail trade unions at your meeting with them in February that the Scottish Government was not considering an extension to the ScotRail franchise?

**Stewart Stevenson:** I am afraid that Karen Whitefield is misrepresenting what happened in two respects. First, you referred to "one of the options". A single option only was available to us, although I suppose that doing nothing could have been another option. The decision that the figures justified our progressing with that option was taken



in March. Secondly, what I said to the STUC was not as you represented it.

**Cathy Peattie (Falkirk East) (Lab):** Good afternoon, minister. I want to return to consultation. Would it have been good practice to have engaged in an appropriate level of consultation, particularly given the public interest in the services that are provided under the franchise and the significance of the public funds that are involved? Passengers, trade unions and other stakeholders have a clear interest in the matter.

**Stewart Stevenson:** We have something to consult on now that we have figures in front of us and we have reached an agreement with the company, and we have 18 months during which we can, if appropriate, not proceed with extension of the agreement. We intend to engage with stakeholders.

**Cathy Peattie:** But is not it good practice to consult people prior to making arrangements and having such discussions?

**Stewart Stevenson:** It would be difficult to provide numbers in advance of having an agreement with which to proceed.

**Cathy Peattie:** Yes, but perhaps you could have considered service levels and so on.

**Stewart Stevenson:** We can and we will do so now.

**The Convener:** Forgive me, minister, but I would like to clarify something that you said. You said that you have 18 months in which you can consult. Does that mean that there will or will not be public consultation?

**Stewart Stevenson:** We are engaging with stakeholders.

**Cathy Peattie:** Will there be a process of public consultation of stakeholders?

**Stewart Stevenson:** Yes. We are engaging with stakeholders.

**Cathy Peattie:** Will you say who the stakeholders are, please?

**Stewart Stevenson:** We have a preliminary list of stakeholders. If members think we should talk to other people, I would be happy to hear from them.

**Cathy Peattie:** The committee would welcome having that list of stakeholders.

**The Convener:** Yes.

**Cathy Peattie:** Why was it necessary to sign the new franchise agreement during the parliamentary recess in April 2008? We have heard that work had been done for a year and a half before then and that decisions were made in March, but the

agreement was signed during a recess. Could signing it have waited until Parliament was in session? Would not that have been easier?

**Stewart Stevenson:** It would have been neither easier nor more difficult. There are well-established processes that allow the business of government to continue during recesses. The original franchise was let during a recess in 2004. Every delay in signing the agreement would potentially make the company's situation risky. We should consider some of the things that happened soon after the agreement was signed. It is possible that First ScotRail would have become less inclined to sign an agreement on the basis of the figures that were before us at that point.

**Shirley-Anne Somerville (Lothians) (SNP):** During the last three months for which figures are available, 87.3 per cent of First ScotRail trains arrived on time, which is only 0.4 per cent better than the United Kingdom average, and around 8 per cent lower than the most punctual operator's figure. In your opening statement, you said that First ScotRail's punctuality was one reason why the franchise was extended. Given that First ScotRail's performance is still quite poor in respect of punctuality, for example, how do you justify the franchise extension?

14:00

**Stewart Stevenson:** The most recent figures, which date to the end of 2007, show that the moving annual average continues to rise. Indeed, the agreement that was signed with First ScotRail in 2004 sought to have it reduce its late-running minutes by 2 per cent per annum. In fact, in the first three years of the franchise, it has achieved an improvement not of 6 per cent, but of 50 per cent.

There are substantial geography and climate challenges in Scotland, and the last quarter of the year is one of the more challenging, so the fact that the moving annual average has continued to rise is quite encouraging. It is currently sitting at 90.1 per cent against that particular quarter's 87.3 per cent. We are seeing substantial improvements and a rate of improvement that is among the best in the business. We are also seeing management who are engaged in delivering more.

**Shirley-Anne Somerville:** What within the new provisions that you have made will ensure that there will be not just continued improvement but continued improvement at a better rate?

**Stewart Stevenson:** I invite David Binnie to speak on that subject.

**David Binnie:** The franchise extension is based on four criteria. The first criterion is the achievement and maintenance of train

performance at at least the level shown in the revision, which is based on a review of recent performance. The second criterion is the achievement and maintenance of the service quality incentive regime—SQUIRE—performance, which is about not the timing of the trains but the cleanliness of the trains and the stations. The third criterion is the delivery of priced options and committed obligations under the terms of the franchise and its revision, where appropriate. The fourth criterion is there being no outstanding event of default or remedial action not being addressed.

**Shirley-Anne Somerville:** Minister, you told Parliament on 17 April that there had been a 30 per cent increase in First ScotRail passenger numbers. However, First ScotRail has indicated that there was a 19 per cent increase. There is quite a discrepancy between the Government's figure and First ScotRail's figure. Can you explain which is correct?

**Stewart Stevenson:** They are both correct at different points in the timeline. The audited figure to the end of 2007 is 19 per cent. We get reports from First ScotRail every four weeks, on the basis of which we expect the figure to be 30 per cent at the end of 2007-08. So both figures are correct: they simply represent the increase at different points in the timeline.

**David Stewart (Highlands and Islands) (Lab):** Minister, in your statement to Parliament you said that, under the current franchise agreement,

"Analysis shows that First ScotRail will return revenue to the state at 80p in the pound for the remaining life of the franchise."—[*Official Report*, 17 April 2008; c7711.]

How many pence in the pound will First ScotRail return to the Scottish Government following the extension of the franchise?

**Stewart Stevenson:** It will return £70 million extra to the Government to spend on projects. The rate of the return will reduce to 50 pence in the pound until we reach 110 per cent—I beg your pardon. When we reach 110 per cent, it will be 50:50; when we reach 114 per cent, it will become 80 per cent once again. So we have raised the level.

We have also, for the first time in franchising, included a cap on profits so that, if the profits exceed £30 million, we will get 50 per cent of the excess. So the mix of what we will get from that source is dependent on performance, and we have created an environment in which First ScotRail is incentivised to drive up performance. In addition, it is committed to delivering £70 million to us.

**David Stewart:** Leaving aside the £70 million, which is contractual and is about going early and getting extra sums back, I am talking about the day-to-day sum and the relationship between First

ScotRail and the Government. Under the initial contract the return was 80p in the pound, but you tell me that it is now 50p. That is a big loss to the taxpayer.

**Stewart Stevenson:** We have maintained without any increase the amount of money that we will pay First ScotRail for running the railway. The figures that we are talking about are in addition to that amount, so there are no additional costs and no losses at that level.

We have taken the £70 million out of the money that ScotRail would otherwise receive. The deal gives us substantially more money to invest in Scottish rail infrastructure without any additional costs to the public purse and, indeed, there is the potential for even more money to come our way if First ScotRail's performance continues to improve.

**David Stewart:** I understand that there are four constituencies here: the Government, the taxpayer—although you could argue that that is almost the same thing—the travelling public and how to incentivise ScotRail. How do you square that circle?

**Stewart Stevenson:** With this particular square circle all corners are moving in a positive direction simultaneously. I see from Mr Johnstone's expression that his head is beginning to hurt. If you get the relationship right between parties in a contract, all parties should benefit. That is why contracts are signed in business.

The taxpayer benefits because we have held the level of subsidy given to the franchisee while at the same time extracting additional money to invest in our railways and putting a cap on the profit limits of the franchisee. For the public, we have a raft of additional services, about which we will engage with stakeholders. For example, I hope that we will get support for the additional services that we envisage to Shotts. There is also incentive for First ScotRail to create a way forward that allows it to share in the benefits of continuing patronage growth on the rail network. The Government, the taxpayer, the public and ScotRail should all benefit, as is proper in a well-founded contract.

**David Stewart:** Are you saying that for the years of the extension the taxpayer will pay less than they would have under the original contract?

**Stewart Stevenson:** The headline subsidy figure will be the same—it is level at the baseline. In addition, we will get money back to invest in our railways. In effect, we will get an improving service with increased patronage for less money.

**David Stewart:** Finally, how will the revised revenue sharing agreement differ from the current agreement? Although you have already covered some of that ground, will you summarise it for the committee?

**Stewart Stevenson:** The original agreement was that revenue would be shared 50:50 when 102 per cent of the target was reached. When 106 per cent was reached, the share would go to 80:20. We have already reached 106 per cent. We have revised the agreement so that at 110 per cent the share is 50:50, and at 114 per cent it goes to 80:20. However, because of continued growth, the £70 million and the cap on profits at £30 million, the revised agreement will deliver more value to the public purse.

**Alison McInnes:** Minister, can we explore the £70 million investment fund? FirstGroup said that the £70 million comes from

“converting future estimated revenue share payments into an investment fund”.

Will you clarify that?

**Stewart Stevenson:** It means that we get the £70 million whether or not there is an increase, whereas previously, moneys would have been contingent on ScotRail’s improving its performance.

**Alison McInnes:** How will you select the projects that will receive money from the investment fund? What dialogue will there be with stakeholders about the prioritisation of that spend?

**Stewart Stevenson:** We have a significant number of priced options, which are in the agreement that has been lodged with SPICE. I will give you a flavour of them. There are improvements to Aberdeen, Fife and Edinburgh services, and in the operation of the new Laurencekirk station. We have half-hourly services to Kilmarnock and improved services to Ayr and Stranraer. Extending the 15-minute-frequency service between Edinburgh and Glasgow is to be consulted on. There are Sunday services between Alloa and Queen Street and between Partick and Larkhall. There is an additional limited-stop service via Shotts. There are additional early morning services to allow connections to London trains, because, at the moment, too many trains leave for London without people being able to get to Edinburgh. There are improvements to connections between Dunbar and Edinburgh and between Glasgow and Perth, improvements to the far north lines to Wick, and a virtual branch line to St Andrews. I am looking in my papers for one example in particular, involving Inverurie, in which I know you will be interested.

**The Convener:** If I could interrupt for a moment—apologies to Alison McInnes—it would have been extremely useful for the committee to have advance sight of that information, rather than listen to you read from a list and try to find the right page in the middle of the meeting. I hope that it can be marked for future reference that such information is much more useful if given to the committee in advance.

**Alison McInnes:** Some of those services—in fact most of them—are ones to which the minister referred in his statement to Parliament. I was disturbed—I wonder if the minister was—that he successfully negotiated a range of service improvements for many parts of Scotland, including the far north, but failed to take the opportunity presented by that negotiation to secure much-needed improvements for the comparatively poor rail services in north-east Scotland. I note that the minister mentioned Laurencekirk this afternoon. What dialogue will take place with stakeholders about prioritisation?

It seems to me that you have taken all of those decisions to improve services based on documentary evidence. I agree that there was a good deal of consultation previously, but it was not based on asking, “We are about to extend the franchise to 2014. Will your priorities change if we do that and would you seek to negotiate different things?” How much of the £70 million have you already negotiated away on those services and how much is left for people to bid on now?

**Stewart Stevenson:** The process of amending the agreement between the Government and First ScotRail—the franchisee—is continuous. Changes are made on a regular basis. We are making a substantial change that brings new money to invest in Scotland’s railways. We have a portfolio of options. I know that mention is made somewhere of additional services for Inverurie, so the north-east is getting its share, as is Aberdeen. The process of engagement that we will undertake will give us the opportunity to refine and amend—as we always can do—what is available. We have a portfolio of “priced options”—that is the term in the existing agreement—with which we would like to proceed. I expect that many people agree with the things that we have included. We will find out as we engage.

**Alison McInnes:** In your parliamentary statement you indicated that resetting the revenue share has brought longer-term benefits of approximately £50 million in reduced subsidy. You have explained some of that already, but can you provide more clarity as to how you arrived at that figure? What do you intend to do with the £50 million that has been saved?

**Stewart Stevenson:** Basically, as the railways continue to grow, there are significant opportunities for Government to gain further money with profit capping, continuing growth and the 50:50 revenue sharing that kicks in at 110 per cent. By and large, we expect to obtain substantial benefits from the agreement, including the £50 million. First ScotRail will have every incentive to earn that money, and the public purse will get access to as much money as possible and is practical to improve rail services.

14:15

**Charlie Gordon:** You said that the new profit-sharing mechanism will begin when First ScotRail profits rise above £30 million. Has it ever made £30 million annual profit under the current franchise?

**Stewart Stevenson:** We have modelled the profits that First ScotRail is making and expects to make. We have also taken independent advice to see whether the model is robust. We believe that £30 million is the figure at which First ScotRail is currently trading.

**Charlie Gordon:** How will any profits above £30 million be split between First ScotRail and the Scottish Government?

**Stewart Stevenson:** They will be split 50:50.

**Charlie Gordon:** You told Parliament:

"Benchmarks have been tightened to secure good performance".—[*Official Report*, 17 April 2008; c 7712.]

What are those tightened benchmarks? How will they be monitored? What are the sanctions for failing to meet them?

**David Binnie:** The benchmarks are based on a review of First ScotRail's recent performance, which has been at an increasingly high level. We have sought to capture that. Performance will be monitored through the existing rail industry mechanisms.

**Malcolm Reed:** First ScotRail has an enormously powerful incentive to meet the new benchmarks. If it fails to do so, the extension will lapse.

**Charlie Gordon:** That is a good cue for my next question. The extended franchise is scheduled to end just before the Commonwealth games come to Scotland.

**Stewart Stevenson:** It will end just after the games.

**Charlie Gordon:** It will end in the same year as the games. I return to the point that you made earlier about franchisees tending to ca cannie—to use my phrase—near the back end of a franchise, if they do not think that they will get the business again. Does the timing of the end of the franchise not worry you? I would look for a franchisee that is seeking to excel in the year when the whole nation will be in the shop window of the world.

**Stewart Stevenson:** I take a different view. With the eyes of the world on Scotland and its transport infrastructure, the last thing that the franchisee will want will be to damage its credibility by delivering anything other than world-class services for the Commonwealth games. It is useful to have the games at the end of the franchise, to maintain the performance levels that we seek, rather than have

them tail off, as might otherwise happen. That is a judgment call.

**Charlie Gordon:** The key will be whether First ScotRail thinks that it will be awarded the franchise again.

**The Convener:** Other members have supplementaries on benchmarks. I am not sure that we have received a clear indication of what the benchmarks are. Someone must know that.

**David Binnie:** Are you referring to the four areas of benchmarking that we have mentioned?

**The Convener:** The minister said:

"Benchmarks have been tightened to secure good performance".—[*Official Report*, 17 April 2008; c 7712.]

What are those benchmarks, and how have they been tightened?

**Stewart Stevenson:** I can explain some of the difficulties by showing the committee that the benchmarks are very detailed. They specify target performance levels for minutes delayed and breach levels, and cover individual periods. There are 13 periods for capacity in year five, for example.

**The Convener:** Can the figures be supplied to the committee in writing?

**Stewart Stevenson:** They are part of the agreement, so when we send you the agreement, they will be available to you. If we do not give you the precise answer that you reasonably seek, it is because the benchmarks are developed in such considerable detail that it might take up too much of the committee's time to do so.

**The Convener:** I am sure that it will not come as a surprise to you that we are disappointed that we did not receive that detail before you came to answer questions from us.

**Cathy Peattie:** I am particularly interested in benchmarking around access to rail services for disabled people and their families. What benchmarks are in place to improve services for them? I know from my work on the Equal Opportunities Committee that services are not always good and accessible. I am talking about trains as well as stations. What will be done to improve services and how will those improvements be monitored to ensure that they make a difference for disabled people and their families?

**Stewart Stevenson:** The member correctly points to stations, responsibility for which is held in partnership with the Department for Transport. In other words, Transport Scotland prioritises stations, but it is the DFT's programme. I have discussed the matter with my opposite number at Westminster who, like me, is anxious to make as much progress as possible.

An example of an issue that we are considering is the standardisation of the position of buttons in train toilets. The fact that different models of rolling stock use different button configurations can present difficulties. There is a new European standard to which all new rolling stock will have to adhere. It will take some time before the effect of the new measure works its way through the fleet, but we are conscious of the issue.

I am not aware of any other specific issues. I believe that issues that have arisen in the past, such as the availability of ramps to allow wheelchairs to board trains—which is clearly required—are covered by the SQUIRE process. Such issues are part of the performance monitoring package that the SQUIRE regime seeks to cover.

**Cathy Peattie:** Do you agree that if such measures are to be implemented, people who have disabilities need to be involved in the process, so that they can express the problems that they have experienced as regards getting on and off trains and using switches in toilets? Surely that is good practice.

**Stewart Stevenson:** We are about to advertise for three people—who must be disabled—to join the Public Transport Users Committee for Scotland. That is part of our process of mainstreaming the voice of disabled people on public transport. I am sure that we will get good advice from those people, and I look forward to receiving it. I will meet the new convener of the PTUC tomorrow, and I believe that the committee will meet on Thursday.

**Cathy Peattie:** It would be helpful for us to be kept up to date as that work gets under way and to receive any reports that result from it.

**Stewart Stevenson:** Sure.

**Alex Johnstone (North East Scotland) (Con):** The minister will be aware from my question to him after his statement to Parliament that I was disappointed that more of the £70 million investment would not be targeted at supporting routes to Aberdeen.

Has consideration ever been given to diverting any part of that fund to support the Aberdeen crossrail project?

**Stewart Stevenson:** We have not been asked to support Aberdeen crossrail, as yet.

**Alex Johnstone:** Is it therefore reasonable to assume that the opportunity might exist to consider that proposal in any consultation that takes place?

**Stewart Stevenson:** I point out that we are looking to improve services to Inverurie and back, which is part of what the crossrail project seeks to

deliver. Of course, we will continue to consider what we can do.

That is not the only thing that is happening in railways. The high-level output specification that the Government submitted last year is the subject of continuing discussions between the Office of Rail Regulation and Network Rail. Like others, I would like the ORR to take an extremely robust line on Network Rail costs, so that the maximum possible proportion of our high-level output specification tier 3 projects is delivered. The £70 million is not, in any sense, the limit of our investment in Scotland's railways. We await with interest developments on Aberdeen crossrail.

**Alison McInnes:** I really must respond to your saying that you have not been asked to support Aberdeen crossrail yet. The north east of Scotland transport partnership and Aberdeenshire Council have asked for support for that project on a number of occasions, and it has been bounced back and forth by Transport Scotland. Life has been made extremely difficult for that project, which has proved itself over and over again. Nestrans, Aberdeenshire Council, local MSPs and a thousand-signature petition—I do not know what more the north-east has to do to get Aberdeen crossrail.

**Stewart Stevenson:** Perhaps I could clarify. I was responding in the context that we have not been asked for funding. We have paid for Scottish transport appraisal guidance appraisals, which at the moment are showing a negative return for investment, and we have asked for further work to be done to deliver a project that will bring a positive return.

**Karen Whitefield:** Does the extended franchise impose any financial obligations on other organisations?

**Stewart Stevenson:** We do not believe so.

**Karen Whitefield:** I understand that it places financial obligations on Strathclyde partnership for transport. If that is the case, would it not have been wise for you to consult SPT?

**Stewart Stevenson:** We do not believe so, because SPT is no longer responsible for rail services. However, I ask Dr Malcolm Reed to respond.

**Malcolm Reed:** Some residual obligations are carried forward. The sums of money involved are not huge and we have already had officer discussions with SPT about taking them on. We are talking about much less than £1 million of obligations.

**Karen Whitefield:** We might well be, but since SPT is funded by its constituent local authorities, would it not have been appropriate to consult SPT about expecting it to spend an additional £1 million?

**Stewart Stevenson:** This has nothing to do with the franchise extension.

**Karen Whitefield:** I am not sure that SPT thinks so, since it will have a financial obligation under the extended franchise that it would not have had beyond 2009.

**Stewart Stevenson:** Dr Malcolm Reed has made it clear that it does not have such an obligation now—end of story.

**The Convener:** Perhaps we can continue to explore that issue as we move on.

Before we move on to the Glasgow airport rail link, minister, I thank you for your answers on the ScotRail franchise extension. I reinforce the point that we have identified several areas on which we are seeking detailed answers in writing from you, which we hope will be forthcoming. If, in future, you are aware that you will be sending detailed information to the committee a day or two after you meet us, it would be useful to let us know about it in advance, so that we can build it into our work plan and ensure that we question you at the appropriate time.

We now move on to the Glasgow airport rail link.

**Rob Gibson (Highlands and Islands) (SNP):** Why was it necessary to transfer responsibility for GARL from SPT to Transport Scotland?

**Stewart Stevenson:** SPT no longer takes responsibility for rail. You will be aware that before the Transport and Works (Scotland) Act 2007, which had cross-party support, was passed, it was necessary to have external sponsors, and SPT ably provided external sponsorship for the GARL project. Transferring the project at this stage, before the letting of contracts, simplifies the process. It also builds on Transport Scotland's expertise. I would not use the word "necessary"—this was the appropriate point at which to make the transfer.

**Rob Gibson:** How much will it cost to transfer responsibility for GARL from SPT to Transport Scotland?

14:30

**Stewart Stevenson:** The cost of the project will be determined when we let the contracts for the civil engineering work. In the light of other experience in the past year, I expect that Transport Scotland will leverage its expertise from other rail projects. Its arrangement in relation to the Airdrie to Bathgate railway substantially undercut the initial figures that Network Rail brought forward. Such expertise is increasingly evident in Transport Scotland.

We are likely to get the best possible deal by having Transport Scotland sitting at the table and

negotiating—with the continuing support of SPT, of course, which continues to have an interest in the project.

**Rob Gibson:** Do you think that the cost will be less than expected?

**Stewart Stevenson:** We might all have different expectations, but at this stage I think that we are making the necessary progress. Mr Gordon focused on 2014, and the project is another important part of the infrastructure for that. In structuring the project, we joined the link from Paisley to the airport and the upgrade of the signalling into Glasgow Central. The potential saving could be as much as £30 million. We are looking for every opportunity to ensure that we deliver value for money.

**Alison McInnes:** I am interested in the savings and management benefits that you will realise from the transfer. You suggested that it is difficult to quantify the financial savings. What management benefits will there be?

**Stewart Stevenson:** You are right to focus on management benefits rather than savings. The transfer is not being done to make financial savings. That is not the primary driver, although there is potential for savings. The purpose of the transfer is to engage in the project people who have recent experience of progressing similar projects. We are not and will not be the project managers. We will let that role to others. The application of their expertise will deliver a degree of certainty because we will have people who know what difficulties are experienced as projects move forward. There are always difficulties; that is why we need a good, experienced team.

You are right to focus on the management benefits of bringing the project into Transport Scotland, because those are the real benefits that will derive, particularly at the current stage. Thanks to SPT's work, we have the legal framework to enable the project to move forward. We are moving towards letting the contracts and supervising the contractor.

**Alison McInnes:** What safeguards are there to ensure that the local knowledge and expertise within SPT is harnessed, especially when an external contractor is delivering the project?

**Stewart Stevenson:** By and large, the people at SPT who have been working on the project are transferring to Transport Scotland, so the link with the existing expertise in the project will not be broken. Many of those people are contractors or consultants who have been brought in. The contracts with them will be novated to Transport Scotland, and we expect those individuals also to transfer. We are looking to maintain continuity in the personnel who are involved.

**Alison McInnes:** Can we expect to see a trend? Do you envisage that regional transport partnerships or local authorities will have a role in promoting and developing future major transport projects?

**Stewart Stevenson:** Most certainly. You should remember that the Transport (Scotland) Act 2005 took rail out of SPT and that the Transport and Works (Scotland) Act 2007 simplifies the way in which railway projects are promoted, so railway and tram projects will work differently in future. However, partnerships will continue to play an important role in setting the strategic framework within which things happen. They will also promote and progress roads, walking and cycling.

**Charlie Gordon:** Recently, in its "BAA Market Investigation: Emerging Thinking" document on airport ownership, the Competition Commission seemed to be looking hard at whether ownership of Glasgow airport should remain unchanged. Have your officials made contingency arrangements, including those of a financial nature, to address the situation of, perforce, a change of ownership and the new owner taking a different view of the GARL project?

**Stewart Stevenson:** In general terms, one of the issues for our airports has been underinvestment. When Ferrovial bought BAA, it took on a mountain of debt. It had looked at securitising the value of Glasgow airport by selling what were essentially bonds, while retaining ownership. Considerable uncertainty could have arisen under certain circumstances in that regard.

Recently, I had an informal conversation with Gordon Dewar, the managing director of Glasgow airport. I am as confident as I can be that we have a robust way forward. Of course, Glasgow Airport Ltd will have to deliver its share of the contract: building the station is its responsibility, not ours. I am confident that that work is going forward, although we will keep a close eye on it. Should any change of ownership emerge, we would engage with the new owners as soon as realistically possible. I stress that, at this stage, we—like you—are simply dealing with some uncertainty. We will need to continue to be engaged in and manage the project, whether ownership remains with BAA or another company.

**Charlie Gordon:** From that, can we take it that you will strive to have contractual arrangements that are assignable to new owners?

**Stewart Stevenson:** A standard part of a contract is the inclusion of a novation clause to allow the rights and obligations under the contract to be reassigned to another party. The ability to novate is standard business practice. I would expect any such contract to contain such a clause.

**Charlie Gordon:** Of course, we need to bear in mind that any change might be good news.

**Stewart Stevenson:** Absolutely.

**The Convener:** I thank the minister, Mr Reed and Mr Binnie for their time. Obviously, the committee will maintain an interest in GARL and the ScotRail franchise. We will await the detail of the franchise extension that the minister will send us, and—in the longer term—the outcome of the Audit Scotland process. The committee will discuss any action that it wishes to take when we consider our work programme at a future meeting.

## Subordinate Legislation

### Transport and Works (Scotland) Act 2007 (Access to Land on Application) Order 2008 (Draft)

### Transport and Works (Scotland) Act 2007 (Access to Land by the Scottish Ministers) Order 2008 (Draft)

14:38

**The Convener:** Items 2 and 3 are our consideration of two items of subordinate legislation. Stewart Stevenson, the Minister for Transport, Infrastructure and Climate Change, will remain with us, although he is now accompanied by different officials, Martin Milarky and Andrew Brown.

I invite the minister to make some introductory remarks on both instruments, after which we will move to questions from members.

**Stewart Stevenson:** I will give a short history of the Transport and Works (Scotland) Act 2007. In previous years, promoters of transport schemes such as tram or rail schemes had to pursue a private bill through the Scottish Parliament, which was a cumbersome, unwieldy and time-consuming process. In the previous session, the Parliament voted to remedy those deficiencies by approving the Transport and Works (Scotland) Act 2007. For ease of use, it appears that I am henceforth to refer to the act as the TAWS.

In approving the TAWS, Parliament also agreed that ministers should be given certain powers under it to provide an appropriate and effective regulatory framework that would deliver a modern, transparent and efficient process. The orders that we are considering today complete the suite of six instruments that will fully deliver the new regulatory regime. They will improve how we bring forward transport systems in Scotland in years to come. The orders complement existing provisions in the Roads (Scotland) Act 1984 in respect of road and bridge orders.

The draft Transport and Works (Scotland) Act 2007 (Access to Land on Application) Order 2008 provides a regime that allows potential promoters access to land to undertake relevant survey and investigative work to determine a site's suitability for a guided transport project. Such powers will be granted by the Scottish ministers only when a promoter has failed to reach agreement with the owner or occupier of the land or property where such work is required.

I assure the committee that such powers will not be granted lightly and that an access to land application is likely to be the exception rather than

the rule. My justification for that assurance is that the order provides that no application for such an authorisation may be made to the Scottish ministers unless the promoter has attempted to obtain access by agreement. We will expect a promoter to have made every reasonable effort to reach agreement with the owner or occupier to enter the land by negotiation.

We will also wish to be satisfied that it is in the public interest for such survey or explanatory work to be carried out. We have the power to attach conditions and limitations to the authorisation to regulate access. That power would be used in cases in which, for example, we sought to minimise the disruption that such work might cause.

The benefits of the provisions are clear. Most transport projects involve a degree of disruption, inconvenience and, in some instances, loss of property. Before people embark—quite literally—down a route that has not been fully examined, the order will ensure that both the promoter and local interests have the opportunity to consider in greater detail and with more precision the suitability of the location of the proposed development and to assess the impact of any such development on the local area and its people.

We see the measures as being wholly consistent with the spirit and provisions of the 2007 act. Public engagement, particularly with those who may be directly or indirectly affected, is the starting point for any potential promoter of transport projects. Such projects should be able to be influenced by local interests. The geological suitability of land for any linear project such as a railway line or guided busway must be an early starting point for any development. Although we anticipate that entry to land will be obtained by negotiation, instances may arise in which mutual agreement cannot be reached and promoters need to use the powers under the order to undertake exploratory work.

I stress that the approval of the Scottish ministers will be granted only when a promoter can clearly and genuinely demonstrate that every effort has been made to resolve the matter by discussion and mutual agreement. Responsibility rests with the promoter to be proactive at the outset in addressing the needs of those whose property or land may be affected. I hope that the committee will agree with me that genuine benefits will be derived from such an approach.

The draft Transport and Works (Scotland) Act 2007 (Access to Land by the Scottish Ministers) Order 2008 relates to two quite separate purposes. The key point is that it will provide the Scottish ministers with powers that mirror those in the draft Transport and Works (Scotland) Act 2007 (Access to Land on Application) Order 2008. Such



powers will be used where projects are promoted by the Scottish ministers—most likely, through Transport Scotland—and where similar powers of access for survey or explanatory work are sought. The same requirement will apply, namely that every effort must first have been made to secure access to the land through discussion and negotiation.

The second aspect is a power that I hope will be used sparingly, if at all. Pursuant to section 18 of the 2007 act, the access to land regime covers entry by the Scottish ministers for any circumstance in which they propose to introduce an order under the TAWS. Such a power would be used in the circumstances in which a transport project has been abandoned or neglected by the project's promoter, or for the purposes of suspending or discontinuing operations. In the event that a land survey is appropriate to develop proposals for an order under section 6 of the TAWS to address those circumstances, the Transport and Works (Scotland) Act 2007 (Access to Land by the Scottish Ministers) Order 2008 provides a mechanism whereby the Scottish ministers may gain entry to land if agreement is not reached with the owner or occupier of the land. Remedial action would be a matter of an order pursuant to section 6 of the TAWS, and any land or site investigation should assist with that.

The access order makes no procedural distinction between the two aspects of the draft instrument, so the same course of action is to be followed by the Scottish ministers when they are seeking entry for site investigation, whether for a proposed new transport project or for an abandoned or neglected project.

I remind the committee that the original policy, as set out in the policy memorandum to the 2007 act, is

“to provide a modern efficient process to authorise transport-related developments which has the confidence of promoters and those directly affected by proposed developments as well as the wider public.”

These final two orders complete the delivery of an efficient, fair and straightforward decision-making process that requires and encourages public engagement and participation.

I hope that that is sufficient for the committee, convener. I will answer any questions that you may have.

14:45

**The Convener:** Thank you. I remind members that the orders are subject to the affirmative procedure, which means that Parliament must approve them before their provisions can come into force. The Subordinate Legislation Committee

has not drawn the orders to our attention. Do members have any questions?

**David Stewart:** Will the provisions of the draft Transport and Works (Scotland) Act 2007 (Access to Land by the Scottish Ministers) Order 2008 cover the extension or dualling of the A9, for example? That might involve a scenario in which you want access to land and require some form of survey. Would that not be covered under existing legislation? Why do we need separate legislation?

**Stewart Stevenson:** The order would not apply in the case of the A9 because it applies to guided travel—in other words, guided buses and railways. It would apply only if there was an interaction on the A9 that required work on a tramway, a guided busway or a railway. Therefore, the answer to your question is no.

**Alex Johnstone:** Both orders have provisions on compensation and refer to

“damage ... caused to land or corporeal moveables”.

Although I think that I know what that means, could you clarify it for me by defining “corporeal moveables”?

**Stewart Stevenson:** It means anything that is not heritable.

**The Convener:** We now move to the formal debate. I invite the minister to move motions S3M-1730 and S3M-1731.

*Motions moved,*

That the Transport, Infrastructure and Climate Change Committee recommends that the draft Transport and Works (Scotland) Act 2007 (Access to Land on Application) Order 2008 be approved.

That the Transport, Infrastructure and Climate Change Committee recommends that the draft Transport and Works (Scotland) Act 2007 (Access to Land by the Scottish Ministers) Order 2008 be approved.—[*Stewart Stevenson.*]

*Motions agreed to.*

**The Convener:** Our committee report will confirm that we agreed to motions S3M-1730 and S3M-1731.

I thank the minister and his officials for joining us. We will suspend briefly to allow the changeover of witnesses.

14:49

*Meeting suspended.*

14:50

*On resuming—*

## Ferry Services Inquiry

**The Convener:** Item 4 continues our inquiry into ferry services. The first of three panels from which we will take evidence comprises Professor Neil Kay and Professor Alf Baird. I welcome both witnesses and apologise for the slight delay in starting, which I hope does not inconvenience you. Would you introduce yourselves briefly before we begin questioning?

**Professor Neil Kay:** Thank you for inviting me; it is a privilege to be here. Since I was invited, some events have occurred to change the agenda of what we might discuss, but I do not intend to say much about that. However, if we are to discuss the solutions, it is important to identify the problems.

In 2001, I argued to the committee's predecessor but one that an independent regulator of Scottish ferries should be established. In 2003, the European Commission confirmed that an independent authority should exist, at least to award contracts—tenders—for ferries. In 2005, I argued to the committee's predecessor that clearly defined and justified public service obligations that adhered to the Altmark guidelines should be established. In 2006, Commissioner Barrot confirmed in writing that, if ferry services were to be subsidised, clearly defined and justified PSOs that adhered to the Altmark guidelines should be established. From 2001, the Executive declined to recognise the case for an independent regulator and for PSOs. It also declined to recognise the relevance of the Altmark guidelines.

On 15 April, I submitted in writing to the committee the argument for an independent regulator, clearly defined PSOs and adherence to the Altmark guidelines. I did not at that point know the content of the Commission's decisions. However, members will be aware that, since then, events have transpired that basically confirm the points that I made in previous submissions. I will not say much more, as I am sure that questions will be asked about that, but I take the opportunity to pay tribute to my academic colleagues Jeanette Findlay and Paul Bennett, who gave evidence in good faith to the committee's predecessor in 2005. They were not given the credit that they deserved—quite the contrary. They should be recognised for their contribution to the work of the committee's predecessor.

My submission contains detailed points that are in note form. The first paragraph refers to two documents that are available to the committee. The first document contains answers from the Commission and the European Court of Justice

that detail the relevant law and guidelines. The second is a working document that argues the case for complying with European Community law on the Gourock to Dunoon route. I hope that the committee will treat that as providing working guidelines for how to comply with relevant EC law. If it helps the committee, a senior Commission official has said that, in his personal opinion—I emphasise that—each scenario that I propose in the second document would comply with EC guidelines. Compliance is possible, but the problem has been previous Administrations' effective refusal to recognise what is needed to comply.

**Professor Alf Baird (Napier University):** I would like to make a few comments about myself before giving a brief summary of my submission to the committee.

I am head of the maritime research group at Napier University's transport research institute, a position that I have held since 1998. My present full-time and permanent position is that of professor of maritime transport. The committee may wish to note that I started my career in 1974 as a shipping clerk in Leith, with the Currie Line, and that my doctoral research concerned the subject of strategic management in international shipping.

My research and teaching activities include port, maritime and transport policy, port privatisation, maritime economics and logistics, modelling the feasibility of shipping services and port facilities, and strategic management in the shipping and ports industry.

I have been commissioned by a wide range of public and private sector organisations to conduct research into ferry services worldwide, including throughout northern Europe, the Mediterranean, Latin America, the United States of America, Japan and Australia, and I have also been commissioned to undertake research into all Scottish ferry markets, including potential cross-Forth ferry services; services on the river and firth of Clyde; Scotland to Northern Ireland routes; services to the Western Isles and the northern isles; possible United Kingdom coastal ferry routes for the transport of freight; and international ferry services.

In 1996, I was appointed specialist adviser to the Westminster Scottish Affairs Select Committee for its inquiry into northern isles shipping service subsidies and, in 1999, I was appointed adviser to Scottish Enterprise in relation to the proposed ferry service between Scotland and the continent, which commenced operations in 2002. In 2001, I was appointed specialist adviser to the Regional Development Committee of the Northern Ireland Assembly for its inquiry into the proposed privatisation of the port of Belfast. I have just

completed an appointment for the south east of Scotland transport partnership and the Shetland transport partnership, which involved advising those bodies and working on an international tender to select an operator for the proposed freight ferry service between Rosyth and Norway that is expected to commence this November, subject to European Union funding. I am currently advising the Isle of Man's Select Committee of Tynwald on the Steam Packet Company during its investigation into the only ferry service that operates to the Isle of Man.

My written statement included a number of reports that involved independent research by Napier University or by major EU projects in which we had been partners. In short, they show that there is substantial evidence to confirm my view that it is neither necessary nor desirable for the state to operate maritime transport services. There is also considerable evidence that the state is unable effectively to operate a commercial shipping business and that subsidies are getting out of control.

In my view, the state should seek to withdraw from commercial ferry operations at the earliest opportunity, in line with policy and trends throughout the EU and, indeed, in Norway, with or without subsidy, as required. Tenders will also prevent any so-called cherry picking—although, as Roy Pedersen, a founder member of the Highlands and Islands strategic transport partnership and now a member of Highland Council, wrote in a letter to *The Herald* this week, there are no cherries to pick as, according to CalMac's most recent accounts, all routes are loss making. The committee should remember, however, that tenders for private sector operations are the norm in other member states and in Norway.

**The Convener:** Members have a number of questions to ask about specific points. My opening question is about the general issue of the appropriateness of state-owned companies providing ferry services. Given that Professor Baird has already made a few remarks along those lines, I ask Professor Kay to answer first, concentrating on the general question rather than the specifics of the Scottish situation.

15:00

**Professor Kay:** I can give a clear answer, but it is not necessarily an answer to the question whether ferry services should be state owned or privately owned. That might be described as a second-tier or second-level question, as might the questions whether the routes should be bundled and whether the services should be tendered. The tier 1 question is whether we comply with European Community law. After that, we can talk

about other matters, such as the form of ownership, bundling or tendering.

The problem is that, for the past several years, the debate has not been predicated on the proper grounds. Therefore, we have all sorts of voices arguing this and that. Until we sort out the basic point of how to comply with EC law, such subsidiary questions as the form of ownership cannot be answered properly. That may sound like an evasive answer, but it is important because we have been carrying on the debate on inappropriate grounds and principles. We have to reset the debate and then consider basic principles.

**Professor Baird:** Part of the confusion in Scotland rests on the fact that previous Governments—if not the current Government—have preferred state operation of shipping services. We must also remember that, in the past 10 years, state involvement in Scotland has expanded with, for example, the advent of NorthLink Ferries. Previously, that service was run by a private company. That expansion goes against trends in the rest of the EU, where the definite, certain shift is towards more private sector operations. In my view, the confusion is largely one of the Scottish Government's own making in that a preference for public sector operations confuses the market and gets into difficulties with EU rules.

**Professor Kay:** I will add a footnote to that. If we were to state that we have a preference for private ownership, that itself would run counter to the basic principles with which we are trying to comply—EC law. The Commission has made it clear that it has no preference for private or state ownership, which is a matter for individual Governments. Therefore, it is back to front to set a basic set of policies to encourage one form of ownership rather than, to begin with, working out what the framework should be for compliance with that set of rules, guidelines and law. We should establish the principles and then work out how best to comply with them.

**David Stewart:** I have an observation for Professor Baird rather than a question. I take his point about the P&O service in the past. However, if I remember correctly, P&O received considerable state subsidy to run that service, did it not?

**Professor Baird:** Yes.

**Rob Gibson:** I will explore public service obligations and relate them to the potential for an independent regulator. What are the witnesses' views on the designation of Scottish lifeline ferry routes as public service obligations? What impact would such designation have on our lifeline ferry service provision?

**Professor Kay:** Originally, the Commission said that island routes could be designated as public service obligations but, in 2003, it recognised that there were certain estuary or peninsula routes—such as the Tarbert to Portavadie and Gourock to Dunoon routes—that could also be eligible for such designation.

The essential issue about which services are public service routes is, ironically, for the Government itself to decide. As far as the Commission is concerned, there is no precept or prescription for what counts as a public service. It talks about services of a general economic interest, which essentially means public services, but it is for national Governments or devolved authorities to decide which those are.

One of the difficulties and tensions that have been encountered over the past several years is that, although it is clear—as I have noted in my written submission—that many routes in Scotland should be regarded as public service routes, the view from Whitehall can be rather different because, south of the border, they do not naturally warm to the idea of ferry routes as being public services. As shown by the fact that the present decision is addressed to David Miliband rather than the Minister for Transport, Infrastructure and Climate Change in Scotland, the United Kingdom authorities have a big presence and responsibility in those areas. Although we recognise that many Scottish ferry routes have public service characteristics, it has been a source of tension.

It is quite straightforward to determine which routes should be designated public service obligations and how we should define them. The Commission has made it clear that a public service obligation is something that commercial operators would not willingly impose on themselves. That might involve a lower fare or higher frequency than they would accept as being in their commercial interests. If a national Government or a devolved authority is treating ferry services as public services, it has the right and the responsibility to impose PSOs. However, in this context, the devolved authority must first decide which services are the public services.

**Rob Gibson:** On 13 June 2006, the Minister for Transport at that time answered a parliamentary question by saying:

“Public Service Obligations (PSOs) would not provide that certainty and security of service nor deliver on the Executive’s key policy objectives. Consequently there is no need to consider, nor do we intend to consider, issues arising in relation to PSOs.”—[*Official Report, Written Answers*, 13 June 2006; S2W-26119.]

Why did he say that?

**Professor Kay:** That was a fusion of two different things. A public service contract is a

device provided by the Commission that is intended to provide for security, certainty and reliability of service, for up to a maximum of six years. A public service obligation is a device that a Government would deploy if it wished to subsidise an activity. That is the main purpose of PSOs.

The two devices are sometimes substitute devices and often complementary devices, but they are distinct and are intended for different purposes. That should be recognised. In the 1992 maritime cabotage regulation, it was made quite clear that, if a Government wished to compensate—that is, subsidise—services, it had to define a PSO clearly and defend it.

**Rob Gibson:** Why did the minister in the previous Administration not take that route?

**Professor Kay:** You would have to ask that former minister.

**Rob Gibson:** Does Professor Baird have any views?

**Professor Baird:** I agree with Professor Kay that public service obligations are a matter for each member state to define, with regard to each route. If subsidy is required for a given route, that then leads to the public service contract.

It is difficult to decide that a given route definitely needs subsidy, because the decision will depend on the cost structure of the service. The cost structure for different ships will be different. When a tender is announced, there is certainty regarding ships on given routes, which will have given cost structures and given labour rates. The basic cost structures cannot easily change, which was one of the main complaints from the private operators bidding to operate the previous franchise. They said that the tender process was too inflexible: they had to use the ships and crews given to them; they had to provide the routes given to them; and they had to provide everything within the cost structure given to them. There was no flexibility to allow innovation.

In Orkney, a new ship is coming on to the market, provided by a private operator. The ship is very innovative and will provide an extremely cost-effective solution. However, that cost-effective solution has been avoided in the whole of the rest of the Scottish ferry system, because the tender process, as set by successive Governments, has been too inflexible. Innovation has been suppressed.

**Professor Kay:** In 2001, I said to this committee’s predecessor but one that the NorthLink contract was untested, and I would say to this committee today that the new Pentland Ferries vessel—although it looks very innovative—is also still untested. We should be careful about using that example as a precedent.

**Rob Gibson:** It seems to be impossible to achieve variability under the current form of tenders, which leads me on to my next question. The designation of lifeline ferry routes as PSOs is likely to require the establishment of a regulator and an operator of last resort. How would that system work in practice, and how much might it cost to establish and operate such organisations?

**Professor Kay:** Also in 2001, I raised a point with the committee's predecessor but one concerning the operator of last resort, and the point had not been satisfactorily resolved. The Executive minister at the time replied that the vesco—which is now called Caledonian Maritime Assets—would deal with the issue, either from its own hand or by finding an alternative operator of last resort. Together with my colleague Captain Sandy Ferguson, a former marine superintendent with CalMac, I made the point that the vesco would not be qualified to act as operator of last resort, because it would not have the proper documentation or certificates. I said that, if we had to wait until something happened before an operator of last resort was found, we could be in very dangerous waters.

In 2003, two years after I made that submission to that committee, NorthLink reported that it could not continue with the contract under those circumstances. As you will see in the Commission's decision, it was pointed out that, if the company was left to its own devices, a receiver might be appointed and there would be no guarantee that those lifeline services would continue. In those circumstances, we were lucky that continuity was maintained, but state aid issues now arise from that action. As I said in 2001, what is common in essential industries that are subject to competitive tendering at UK level is the designation of an operator of last resort. The problem is that, when I raised those issues in 2001, they were not treated seriously or, if they were treated seriously, they were not attended to. I understand that the chief executive of Caledonian Maritime Assets will give evidence later this afternoon. I have not examined the issue for several years, but I think that the question still arises of how to deal with the situation if an operator decides that it cannot continue and breaks the contract. I suggest that you take up that question with the chief executive.

**Rob Gibson:** Commissioner Barrot made it clear in his statements to us that the need for an independent regulator was a natural part of the EU structures and that, in the meantime, there was no threat, despite scaremongering to the contrary, to the lifeline services. We have talked about the operator of last resort aspect. How would the regulator be set up and what would it cost?

**Professor Kay:** In part, setting up a regulator would not be so costly because, as I have argued

from the outset, it would be a simple transfer of responsibility from Victoria Quay. I would desire it to be cost neutral but, in practice, additional responsibilities and work might be required. The regulator's main function would be to act as a buffer to protect politicians from the lobbying of businessmen and to protect businessmen from the interference of politicians. I do not mean that in a personal way about any past, present or future politicians or businessmen—the use of a regulator is a common device in such circumstances.

The other way of looking at the issue is that, even if extra resources were required, the cost of not having a regulator could, as we can see from the Commission's decision, greatly exceed any cost savings that might obtain from not having one. It is a common and sensible device, which the Government should adopt, as I argued in 2001.

I am gratified to hear, because I do not think that it was in the Commission's decision, that the commissioner made that point. I did not know what the Commission's decision would be. I have been arguing the point for seven years and I am gratified, albeit belatedly, to have confirmation from the Commission, but I have to say that the Commission made it clear in its communication in 2003 that an independent authority should be appointed. I am not talking about something new; I am talking about something that has been documented for five years.

**Rob Gibson:** That is interesting, because it raises a number of questions. For example, given that that is the framework within which EU law is built, as your submission states, why has legal advice to the contrary been given within the Scottish Executive and potentially the Scottish Government?

**Professor Kay:** I have come to a firm conclusion as far as that is concerned. I am concerned to see that fingers have recently been pointed at the Commission for being responsible for that situation. I have to say, without qualification, that it is clear and well documented that the Commission has been signalling for years what is required to be done. I have said in my submissions that those who made the decisions in Scotland did so in good faith and I do not retract that. However, for years, the internal advice that ministers were receiving was heavily flawed and was shown to be so, yet there was no way of persuading ministers that that was the case. If anything is to be taken from the Commission decision at this point, it is not just that the problems should be addressed urgently but that current and past advice to ministers has been deeply flawed. Serious consideration should now be given to revising the current situation in the timeframe that is available to us—within the next

year or so—in a manner that is finally compliant with EC law.

15:15

**Professor Baird:** One of the easiest ways of avoiding this stushie is for us to do what other member states do and to assume that, given the opportunity, the private sector will provide the vessels for routes, even lifeline routes. As Professor Kay said, the state should be the operator of last resort.

**Professor Kay:** I did not say that.

**Professor Baird:** Nowadays we do not expect the state to provide buses, train services and aircraft, so it is bizarre for us to expect it to provide vessels and to employ everyone who works and lives on board, in some cases on very short routes. The fundamental problem that the committee should seek to address is how we can create a level playing field that allows the private sector to bid to operate services, through innovation, and to provide vessels, through its own investment.

**Professor Kay:** I did not say that the state should be the operator of last resort. It is a responsibility of the state to ensure that such an operator is in place, should it be needed, but I did not say that the state should be that operator.

**The Convener:** Some of us would be quite comfortable with the state running trains and buses once again.

**Alex Johnstone:** Aye, but not all of us.

**The Convener:** That is a discussion for another time. I point out for the record that the discussions that members of the committee had last week with the commissioner were informal and should not be construed as relating to firm proposals.

**David Stewart:** I offer an observation to Professor Baird. Recently we visited NorthLink. I understand that its vessels are leased from a corporate bank and are not owned by NorthLink. In a sense, the private sector already has a role, because it is under contract to NorthLink for a period of six years. Ownership on the routes in question is mixed.

**Professor Baird:** I am aware of that, but in the current buoyant shipping market there is a negative side to leasing vessels. If the operator had owned the vessels, it would have achieved a substantial capital gain on them. Because of the leasing strategy, that capital gain has been lost to the operator.

**Alison McInnes:** Concerns have been expressed that the designation of lifeline ferry routes as PSOs could lead to cherry picking of certain routes by private operators, leaving the

least attractive routes behind. You have both touched on that point, but I would like to hear your thoughts on the issue in more depth. Do you think that tendering will prevent the problem from occurring?

**Professor Kay:** As I have emphasised for some years, the danger lies not in cherry picking of routes but in cherry picking of parts of routes, such as freight, vehicle carrying, short crossings and summer-only or peak-period services. The parts of routes that are likely to be left for the state to pick up are the expensive bits—the rump that no one else wants. Those are likely to be foot passenger services, longer services and city centre to city centre services. It is not the case that the private sector does not have a role to play. The trick is to redesign the current system to ensure that we marry public service and enterprise, private or state. A vacuum has been created by what has not been done. The result is that there will be a great deal of ad hocery, as there has been in the past, and that bits and pieces of routes that may be profitable will be picked away. It would be a disincentive for an operator to enter into a contract if they saw that there was danger of profitable parts of the route being chipped away after the contract was agreed. That is the real problem with cherry picking.

**Alison McInnes:** How do we guard against that?

**Professor Kay:** I give the example of the Gourock to Dunoon route, on which there is a private sector operator and a public sector operator, CalMac. The CalMac route is intended to provide a service for foot passengers only; indeed, objectively, the route largely makes sense only in respect of providing for foot passengers, and the subsidy is intentionally designed for them. That is the public service obligation part. The solution on the Gourock to Dunoon route is not to disrupt the private sector operator, but to apply a PSO on it for public service operators and then provide a means whereby a subsidy can be provided for the public service. After that, vehicles must be run on a purely commercial basis if a service is not to be covered by the PSO. The ability to provide a public service and a private service can exist on one route.

Rather than going into details on that, I invite the committee to consider the Gourock to Dunoon options paper that is mentioned in the first part of my written submission, in which I go into the detail of how such provision can be achieved on the Gourock to Dunoon route. I emphasise that the role of public service obligations and adherence to the Altmark guidelines run through my proposals. At the moment, the problem is that we have inherited a lack of recognition of the true role and relevance of PSOs and the Altmark guidelines.

Once those things are recognised, there will be an opportunity to provide for public services and private enterprise.

**Professor Baird:** The evidence from other countries is that socially desirable routes that do not quite cover their costs can be tendered and quite easily run by the private sector. It is also better if the private sector can innovate and provide its own types of vessels and different cost structures—perhaps operating hours can be extended and services can become more frequent. The inflexibility of the current arrangements limits services and underlies the subsidy increases that continually have to be pumped into the system. The suppression of innovation is the reason behind such things.

Basically, cherry picking can be avoided through tenders and giving contracts to private operators to run their services with penalties if they do not meet the benchmarks that they are supposed to meet. We have just heard the Minister for Transport, Infrastructure and Climate Change talking about railways, about which exactly the same remarks apply. The state does not have to own and operate ships.

**David Stewart:** Do we need a separate Scottish Government ferries strategy? Some people have argued that ferries are a Cinderella service and that we need a distinct strategy that would involve perhaps one body taking responsibility for them. Some have argued, for example, that responsibility for road, rail and ferries matters should move from Victoria Quay to Transport Scotland, although it could be argued that doing that would simply move that responsibility from one set of bureaucrats to another—I would not be so rude as to suggest that. What are your views on having an overall strategy and one body that is responsible for ferries, road and rail matters, in particular for integration?

**Professor Kay:** Transport Scotland has a potentially useful role to play, although it is an executive agency and therefore may not constitute what the European Commission would regard as an independent authority. That is the regulatory aspect.

I agree with Professor Baird about the need for strategy and innovation. We have inherited a problem. The old CalMac was responsible for strategy, and whether or not we agree with what it did, the reality is that it looked at a 20 to 30-year time horizon and made recommendations about new ships. That the old CalMac no longer exists has not been properly recognised. CalMac Ferries now has a six-year time horizon and is basically an operating company.

There are two problems. A six-year time horizon for a public sector contract is generally not one

that any operator would find benign if it wants to plan and build an asset with a time horizon of 20 to 30 years. There is no guarantee of obtaining that asset again. A vacuum exists at that point; I agree with Professor Baird in that respect. The Scottish Government, whether through Transport Scotland or another body, should fill that vacuum to a large extent, although I do not think that the necessary expertise exists at the moment—it would have to be created.

There is another problem. There can be a long time horizon, beyond six years, on commercial routes such as the Pentland Ferries route, and there is provision for innovation in that respect. However, most of the routes that we are talking about will be subsidised, because there are very few commercially viable routes. A six-year time horizon is not attractive to either an incumbent or a potential entrant for commissioning and building new vessels.

That is a general problem, not just in Scotland but elsewhere. I disagree with Professor Baird on one point. As I outlined in my written submission—to give credit where credit is due to the previous Executive—one aspect of the system that is genuinely a potential advantage is the separation of Caledonian Maritime Assets and also the separation of CalMac Ferries and the other operating companies. The reason is that, done properly, we have the operating companies with their six-year contracts and we have Caledonian Maritime Assets, which in principle has a time horizon for those assets—the piers, the linkspans and the vessels that are appropriate to the investment opportunities.

For the reasons that have been outlined, I am not convinced that we have made the best use of that set-up. However, in other parts of Europe, that particular aspect of what was done in the previous Executive is regarded as an advantage. For example, I understand that in Denmark one company is becoming a dominant operator on many of the public service obligation routes. That, in itself, will create implications and potential problems further down the line in terms of dependence on one private sector operator who will be a dominant operator in Denmark. I would caution against assuming that, because there are genuine—but remedial—problems in the context of Scotland, we should throw the baby out with the bathwater. There are aspects of what we have inherited that can be valued and built on.

**Professor Baird:** There is a definite need for a maritime directorate, as one finds in most countries with a coastline. Scotland does not have such a directorate. A directorate would be a good opportunity to bring together the various organisations that have a role in maritime transport but which act individually and do not

necessarily talk to one another on a daily basis. I refer, for example, to the Maritime and Coastguard Agency, the Northern Lighthouse Board and other nautical organisations.

We might also look at port authority functions and the legacy of the Thatcher era of the port privatisation experiment in the UK. That is cited internationally in maritime economics as the great example of going too far with the market by selling off the regulatory function of port authorities. That was a key error, which has to be remedied. There is a role in bringing about a maritime directorate and including in it some expert capabilities. We ask a lot of civil servants to go to different departments and then to go into the maritime area, which requires a long learning curve. The maritime industry is quite unique and distinct from rail. For a number of reasons, it should not necessarily be stuck into Transport Scotland.

Regarding ship investments, the life cycle of ships is getting shorter and shorter. It is a bit like when one buys a BMW—in a couple of years' time it is obsolete. Ships are a little bit different but they are broadly the same. In two years' time, the ships that are coming off the production line will be much more efficient than now. There will be different fuel, engines, ship design, hull design, hull forms, hull materials and costs, and there will be new shipyards. The system changes all the time. We can no longer buy a ship and expect to run it for 30 years. That is perhaps an outdated state mentality, but it does not register in the real world.

Private shipping lines have a significant advantage, especially transnational ones that are bidding for public service contracts throughout Europe and the rest of the world. Shipping companies may be related to bus and train companies, but bus and train companies move people, they do not sell moving ships. The transnational transport organisations can therefore manage the investments and reposition ships between routes much more easily. They do not have to bother about losing a franchise in one market because they know that others are coming up.

In addition, the companies are repaying the vessels over relatively short periods, not over 30 years. They do not get commercial loans over 30 years, unlike some state-owned organisations that might be able to get cheap cash to buy vessels. That is one of the distinct advantages a state-owned shipping company has over its private sector competitors. It would be nice to examine the area of competition, which we have not really addressed.

**David Stewart:** I move on to the issue of fares. In the past, we have had various policies on fares, such as having a straight 40 per cent discount

across the board for passengers throughout Scotland. The current model, with which the witnesses will be familiar, is the road equivalent tariff, a pilot of which will be run in October. What are your views on the best method of setting ferry fares?

15:30

**Professor Kay:** Ultimately, it should be a matter of Government policy. In principle, there is no reason why, if it is deemed appropriate, there should not be a zero ferry fare in some contexts; what you want to encourage and what you can justify are matters of public policy.

Much as investment was the responsibility of the old nationalised industry Caledonian MacBrayne, so too was pricing. In those days, pricing was CalMac's responsibility—in the public interest as well as for financial probity. The problem is what we have inherited. In part, that is because everything with a time horizon of a few months from 2000 onwards has been a system of inertia and pricing by default. It seems that this year's fare is last year's fare and the only innovation has been RET. If you wish to look at such issues, there are well-established economic principles that prompt us to ask, "Do we actually want to have low or high prices on a particular route?"

Rather than reinvent the wheel, the Government should set up a body or unit within the Government to look at what prices should be. At the moment, RET is the only game in town, but the pricing rules have to be decided not just for RET but for the routes that do not qualify for RET, perhaps because the subsidised price is already lower than RET.

There has to be a set of principles, which should come in answer to questions such as, "What is your policy? Do you want to stimulate economic development and protect peripheral communities?" and so on. Once the principles have been developed, the economists can give you the tools to justify and analyse the pricing policy. You need well-established principles, but the Government has to establish the policy in the first place.

**Professor Baird:** Fares are an immensely complex area. Government has a number of mechanisms at its disposal, one of which is price ceilings; another, as the minister mentioned in speaking about ScotRail, is interception of profits over a certain level. On the road equivalent tariff, as Professor Kay said, you can make ferry fares free, but I am not so sure that that would have the effect of improving the quality of the ferries. The quality of ferries is fundamentally about the management system and the investment in the technology used, as well as the working practices onboard and the operating hours.



If you doubled the frequency on a route such as Arran, you would probably increase the market by at least 50 per cent and that route would be commercially viable with private sector-provided tonnage. If you were to extrapolate from that and apply the idea to other routes, you would find similar consequences.

Government should be aware that it creates an effect when it subsidises competing modes. I refer to the air discount scheme, which has had a dramatic effect for passengers from Orkney, where I live, because it offers a 40 per cent subsidy. That has shifted people to the air from the sea mode, which is subsidised as well as private sector operated. That is all very well and it provides a subsidy for people such as me who travel from Orkney to Edinburgh, not just across the Pentland Firth. Government distorts the market through the air discount scheme—not that I would argue for the scheme to be taken away, given that Loganair's prices are hellish to begin with.

NorthLink, which is Government subsidised, is advertising in the press a 30 per cent discount not just for islanders but for islanders' relatives and friends. Where is the level playing field with the private sector competitor? Where is the level playing field with the private sector competitor with the air discount scheme? Government can force losses on a public sector-operated company; as the only shareholder, it has to pay for it somehow or other. However, for the private operator competing against subsidised routes—in sea transport or in aviation—Government runs the risk of destroying competition or private sector innovation. That is the real worry and there is a lot of precedent. As I said in my written submission, the Government's role should not be about destroying private sector innovation and competition.

**Professor Kay:** One of the puzzles—there is anecdotal evidence for why it might have happened—is that the Executive, or at least members of the Parliament, originally pushed the idea of PSOs in both ferries and air. In the case of air services, that turned into aid of a social character, or residents' discounts on air fares. From the point of view of aiding peripheral regions, economists would regard the aid of a social character device as inferior to a PSO. Although the aid of a social character residents' discount would help residents to go to the mainland, it would also increase leakages because people would be more likely to spend on the mainland than on the island. Air fares should be lower for everyone, particularly for those who want to go to the islands and spend their money there. There is not much point in having a lower air fare to enable someone who works in a shop in Stornoway to go to the mainland and spend money there if, as a consequence of the higher air fare for people

coming to the islands, the shop goes bankrupt because it is doing no business and cannot afford to employ.

The asymmetry between residents' fares and fares for those who would otherwise come to the islands could be seen to be having an adverse effect on the economic development and maintenance of such areas. However, in case what I am saying is misconstrued, I emphasise that I am not against lower fares for island residents. On the contrary, I am in favour of lower fares for everyone.

**David Stewart:** My final question is about the European Commission and the investigation into the subsidies that are being paid to CalMac and NorthLink. How do you feel about that? Has there been overcompensation or have the tendering exercises been unfair or unnecessary? My other question is for Professor Baird, because Professor Kay has already answered it. Do you accept the EU view that it is perfectly competent for nation states to provide subsidies for socially necessary routes as long as they meet the requirements of the European Court of Justice's decision in the Altmark case?

**Professor Baird:** As I said, the situation would be much less complex if the private sector was given a level playing field on which to bid. That includes the opportunity to provide its own tonnage. The private sector ferry companies that we have worked with in the past, and the companies that tried to bid for the current routes, had their own ideas on tonnage, the different types of vessels that they could employ, and their operational aspects. They can offer something different from the state and that is at the core of what they can offer.

Increasingly, the European Commission expects private sector operations to win bids because, throughout Europe, the state is largely leaving the shipping sector because it cannot run a shipping company effectively. That has been proven, and it can be seen in the subsidies that have reached ridiculous levels during the past five or six years, the lack of innovation, and the fact that patronage or ridership—whatever you want to call it—is not doing anything exciting at the moment, nor will it be the solution. Real innovation is needed on those routes and that is what will grow the economy. From studies elsewhere in Europe in which we have been involved and that we have reviewed, we know that service frequency as well as improved quality would fundamentally grow the islands' economies.

A large part of the subsidy goes not into cost reduction, but into operating costs such as crewing and pensions. The cost structure of CalMac shows that a large element of the cost—more than 50 per

cent—is salaries. In a normal shipping company, that would be about one third.

**David Stewart:** Professor Kay mentioned the subsidy paradox. Obviously the MCA tends to lay down staffing requirements. What is your view, Professor Kay?

**Professor Kay:** I made the point about the rapid increase of subsidies in my written submission. Safety requirements have been increasing, and I understand that some of the increase in subsidy was due to that.

Comparing time period with time period, the fact that the subsidy has been increasing might well reflect the fact that what were formerly grants and soft loans to the old CalMac are now much more transparent and clearly associated with operations; however, that is a technical question and you will have to ask others for clarification. It might be misleading to compare what is happening with subsidies at the moment with what happened in the past.

The Commission itself would not try to second-guess the appropriate level of subsidy in many cases, let alone a private operator. The appropriate level would be what the market would bear; often, it is tested by the tendering process although there are other ways of testing it. Indeed, my written submission mentions the fact that the Commission has recognised the role of expert studies, which can be used to judge and evaluate the appropriate position for PSOs, subsidy, cross-subsidy and so on. There are devices other than market testing by which it can be judged whether the level of subsidy is appropriate, or whether it is overcompensation.

**Cathy Peattie:** Concerns have been raised that the current northern isles and Clyde and Hebrides ferry service contracts do not allow sufficient operational flexibility. Is there any way in which such contracts can be framed to allow for flexibility—for example, for the holding of a ferry until a train comes in?

**Professor Baird:** They should have that flexibility. Passengers should not come into a port by ferry only to see their train leaving, although I know that that happens quite often. Obviously, that should be avoided. The tenders require to be a bit more flexible, not just for the ferry companies, but for the railway companies, which are also under the threat of severe penalties.

The trend in the ferry sector over the past 20 years has been for much more car-accompanied traffic. The ridership by train and ferry will differ on some routes, on which there will be a high incidence of integration with rail; however, on many ferry routes—I would say the majority—the integration is very much with road and car. The

railway issue is, therefore, significant for some routes but not for the majority of them.

**Cathy Peattie:** When we have taken evidence around the country, people have told us that that is an important issue for a number of ferry users. Professor Kay, do you have a view on it?

**Professor Kay:** In an ideal world, it would be in the operators' interests for them to adjust their schedules to integrate, as integration should increase the usage of the routes. One presumes that the operators have the incentive, but in practice it is difficult for them to do that. For example, it would be in the interest of the train operator to link with the ferries on the Gourock to Dunoon route, but there will always be delays. What would happen if the First ScotRail train departed three minutes before the ferry arrived? First ScotRail already faces penalties and has objectives to fulfil; therefore, on a day-to-day basis, integration may be difficult to achieve.

More generally, one possibility would be Transport Scotland widening its involvement to include ferries. That has been suggested as a way forward. My feeling is that integration could best be achieved through communication and co-operation if that could be incorporated within the contracts and if provision could be made for that. However, it must be borne in mind that public service contracts are quite tightly specified, which is understandable if an operator is to be measured by its performance. I am not suggesting that there are easy solutions to the problems.

**Cathy Peattie:** How should the Scottish Government ensure the on-going provision of lifeline ferry services following the end of the current northern isles and Clyde and Hebrides ferry service contracts?

**Professor Kay:** You will have anticipated my response to that question. We must not start from where we are; we must start by building what we should have built seven or perhaps eight years ago. At that time, we received very clear signals about what needed to be done. We need to create an independent regulator and develop a system for public service obligations and adherence to the Altmark guideline.

I made the point in 2001 that, in addition to an independent regulator and a properly designated operator of last resort, we need a proper statutory framework for the particular set of problems. That was almost an aside, but for every other introduction of competitive tendering in a UK industry that has been a given. What we have had is a time horizon of a few months from 2000 onwards, when Sarah Boyack first announced the intention to put the tenders out. We have never had the opportunity to stand back and think about what we are doing.

Like Professor Baird, I identify the long term as a problem, and innovation is one aspect of that. The broader aspect of what we want to do in terms of the level of fares, the nature of routes to be supported and how we will achieve that has never been addressed properly. We have always been given the excuse that the time horizon is a matter of a few months. Now, we have a clear indication from the Commission that we must start to create—at last—a proper framework. That should be our starting point. After that, everything else—the bundling, the tendering and whether or not and how we have state or private sector involvement—is secondary. The primary issue is to get it right this time.

15:45

**Professor Baird:** I have a small point on integration. I am just back from a trip to Norway, where for the past six or seven years I have been doing a lot of work on research projects in the ferry sector. I took a ferry from Kristiansand to Trondheim, from one excellent, covered terminal with bus and rail integration—Trondheim has rail integration—to another. The trip was on a lovely catamaran and the route was partly on the open sea. It was not far different from the Firth of Clyde in the Dunoon to Gourock area. A couple of months ago, I took the train from Glasgow central to Gourock. The rolling stock was old, and pretty shabby and dirty. I got out in the railway station at Gourock—an obsolete-looking thing with no roof—and on to the CalMac ferry, with its 1960s design and 1970s construction. That is my example to the committee of state provision. In comparison with Norway, Scotland is like a less-developed country. To get over that, we have to refine tenders to ask the private sector to provide us with tonnage, with modern, sophisticated vessels, and with managerial, operational practices that are common in many other European countries and in other economies worldwide.

**Professor Kay:** Perhaps Professor Baird was looking in the wrong place. I am a regular user of the Gourock to Dunoon ferry—indeed, I came over on it today. The Gourock transport interchange is on the back burner. The place is derelict. We have 35-year-old streakers, as they are called, and the Ali Cat, which is only allowed to sail in 18in of wave. A private sector operator runs 80 per cent of the market. Had Professor Baird been to Wemyss Bay, he would have found two magnificent vessels—MV Bute and MV Coruisk—run by the state-owned operator, and superb facilities, of which we can only dream in Dunoon.

**Rob Gibson:** I would like your views on the debate that took place in 2005 about the accessibility of the model that Professor Kay suggested, including the Altmark case. It was suggested by the minister at the time that that

approach was not viable. The Altmark judgment was about whether a subsidy could confer on the company that received it an advantage over others that had not. The European Court of Justice's decision makes it clear that the judgment did not seek to overturn sectoral rules relating to subsidy where those exist. Does that mean that the Altmark judgment—which I think was about buses—would not be related to the decisions that we are interested in to do with ferries?

**Professor Kay:** In 2006, Commissioner Barrot, in response to a letter—I think that it was from Alyn Smith MEP—said that the Altmark guidelines have to be complied with if we are going to subsidise and impose PSOs on ferry routes in Scotland. The best way to think of the guidelines is as a set of traffic signals. I think of the PSO as being rather like a driving licence. It enables us to subsidise. The guidelines provided by Altmark are indications of how we achieve and justify the subsidies that we are imposing on a route. Norway is subject to the same rules and regulations as Scotland, even though it is not in the European Union. Indeed, since 2001 Norway has been investigated by the European Free Trade Association Surveillance Authority for allegedly failing to comply with the rules. For many years, the relevance of Altmark has not been a mystery. It has been clear since 2006 that it has to be complied with.

**Shirley-Anne Somerville:** In today's evidence and at previous meetings, much mention has been made of the lack of innovation and the historical decisions on which the current system is based. You have already touched on this, but is there scope for a root-and-branch review of the ferry network? If such a review is necessary, who should carry it out, how should it be done and what should the timescale be? Let us start with Professor Kay.

**Professor Kay:** The timescale is one year. The Commission has 18 months to fulfil its investigation. It could finish it more quickly, but a one-year horizon is sufficient. If we thought that we did not have the time before, it is clear that we must make the time now. It is quite possible to produce in a year a set of options and policy decisions on what should be done with the Scottish ferry network so that it complies with EC law. It can be done, because other countries have done it with their ferry networks. There are different ways of so doing.

There must be recognition of what the problem is. The problem is not the Commission. I am not here to speak for the Commission, but if I were the Commission, I would feel that I had been saying certain things for several years but had not been listened to. I emphasise firmly that it is clear that

the problem is the internal advice that is given to ministers.

There is uncertainty about whether that advice has come purely from officials in Scotland or whether it has been influenced by officials in Whitehall. It is time to get advice from outside, from advisers who are independent of the internal advisers on which ministers have been relying for several years. A system should be set up that complies with the requirements of an independent regulator, PSOs and the Altmark decision. It is not until we sort out those first-tier problems that we can deal with the second-tier issues of bundling, tendering and state and private involvement. Until we do that, we will just be talking vaguely and ambiguously about what should be done. As the Commission has signalled, we must create clarity in the framework.

**Professor Baird:** Fundamentally—certainly in the case of the Western Isles—we must get away from the single bundle concept. A key problem for private sector bidders is having to bid for the entire system of 30 ships and 1,000 people or whatever; it is just too massive and inflexible. A private sector operator who bids successfully for that system must take everything that is there.

Essentially, we must start with a clean sheet. In effect, we should say that the fleet is for sale, as all ships are, at one time or another—they are mobile assets. We should then put each route out to tender. It does not have to be an onerous or inflexible process; it should be a flexible one that involves finding innovation on a route-by-route basis. The same companies might bid for and win different routes—one company might win some and lose others. That is the only way in which we can succeed in improving innovation and efficiency and give the islands and remote communities a decent service for the 21<sup>st</sup> century.

**Shirley-Anne Somerville:** That rather assumes that the present routes are those that we would want to put out to tender. Should we go a stage further back and review whether the ferry service that we have is fit for the 21<sup>st</sup> century?

**Professor Baird:** With respect, I do not think that civil servants or their advisers can do that. The solution lies partly in private sector innovation on route decisions. We should not throw routes at people on the basis of historical precedent or even some consultation process—in my experience, deciding routes by consultation or ship design is quite a flawed process, as the subsidy requirements show. We could innovate by asking operators about their preferences for routes and examining the effect that that would have on their cost structure.

**Shirley-Anne Somerville:** Perhaps we could also ask passengers and users, rather than just the operators.

**Professor Baird:** Yes, although the market has a perception formed from experience. In the European ferry industry, the companies that bid for many of the public sector concessions have a great deal of common learning, which they could bring to Scotland from countries such as Denmark or Spain. The state-owned operator in Scotland cannot do that because it does not have that common learning that brings international or transnational benefits.

**Shirley-Anne Somerville:** We have heard complaints about the vessels that are used on certain routes and the fact that they are incompatible with the port infrastructure—the issue was touched on in reply to some of Dave Stewart's questions. How could that situation be addressed in future? I think that Professor Baird has already answered that.

**Professor Kay:** One part of the problem is the inheritance problem. Some linkspans and piers are in the hands of Caledonian Maritime Assets and some are in the hands of councils. If we were starting from scratch, we would not design that kind of inheritance. It tends to be a bit patchy and ad hoc.

The issue is perhaps further down the line in terms of priority, but there is a strong case for trying to rationalise the system by putting together the vessels and facilities in a more synchronised fashion. It has to be said that the creation of Caledonian Maritime Assets gives us the ability to do that. We now have a body that is responsible for the floating and fixed assets. If there is a body that can take an overview of the issues, it is Caledonian Maritime Assets.

**Professor Baird:** I disagree. Caledonian Maritime Assets is still a state-owned entity that owns ships. It might well be its role to provide port infrastructure on a common-user basis to competing operators, as airports, bus stations or railway terminals do. Providing common assets is fine, but ship-owning is an art as well as a science and it is not something that governments do well. The CMAL model is not obligatory. CalMac has been split into two entities, but I have not seen any evidence for the model anywhere else. It is a unique example that has not been tested. It has not got around the Commission's concerns and I do not think that it will do so.

**The Convener:** We have a little time in hand, so if either of the witnesses would like to raise any issues on which members have not asked questions, now is the time to do so.

**Professor Kay:** I finish with a simple point. It is easy to consider the problems in isolation—the regulator, the operator of last resort, PSOs, or the Altmark judgment—but the problems are systemic, and the solutions must be systemic. That takes me

back to a point that I argued in 2001, when I urged the then Executive to consult the people who had competence in the problem issues. The Executive should have had no sense of failure in consulting the Department of Trade and Industry and other bodies in England that were responsible for the introduction of competitive tendering to essential services. That was the issue with which we were faced and those bodies would have provided insights. At the time, however, there was insularity and a bunker mentality in relation to taking advice from outside individuals, bodies or institutions.

The problem is systemic. We have to design a new system for identifying how to comply with EC law. When we have done that, we can fine tune and identify to our heart's content issues of tendering, bundling and state ownership. We have to get the system right first. We can then deal with the specific problems.

**Professor Baird:** On competition, it should not be the role of the state to squeeze out private operators and private investment, but that is largely what is happening. I provided some evidence that there is precedent for that. Private sector shipping routes have been closed down in the past due to subsidised competition.

Scotland needs a maritime directorate with the skills to develop a maritime strategy or policy for Scotland as a whole. That has been missing in Scotland for a long time. It is missing in the UK, but that is perhaps another issue.

We should have flexible tenders with the opportunity for private sector companies to make investments in tonnage, because the ships determine the cost structure and it is the cost structure that differentiates bids. When all bidders have the same cost structure and the same ships are given to them, there is no variation or differentiation in bids. That is a problem.

As for competence, the private sector's competence in shipping is vastly superior to that of the public sector. Governments do not run shipping companies well and they should get out of doing it soon.

**The Convener:** Thank you both for your direct evidence. No doubt you will be interested to read the conclusions in our report.

I suspend the meeting until 10 past 4, when we will take evidence from the next panel.

15:59

*Meeting suspended.*

16:10

*On resuming—*

**The Convener:** We continue item 4, which is evidence for our ferry services inquiry, with panel

2. I welcome from VisitScotland Ben Carter, who is the head of strategic relations; Andy Steven, who is the island manager for Shetland; and Chris Maguire, who is the strategic relations manager. I ask Mr Carter whether he wishes to introduce himself and his colleagues further and to make opening remarks.

**Ben Carter (VisitScotland):** Tourism is very important to the islands' economy, almost in proportion to its importance in the rest of Scotland. About 15 per cent of the island groups' gross domestic product relies on tourism. Ferries are a key enabler of tourism's success on the islands, so we support the ferry services inquiry. We are keen for ferries to continue to support tourism on the islands.

The ferry is a critical part of the visitor experience, not just a means of getting visitors to their holiday destination. Boarding a ferry is the start of somebody's holiday, so that experience is important. We see opportunity in that.

We welcome the road equivalent tariff study and we are interested in the impacts of that tariff. We are aware that the different island groups may have different perspectives on that pilot.

Capacity on the ferries is important, as it is in some ways a rate-determining factor for the amount by which tourism can grow on the islands. However, extending the tourism season is also important, and increasing capacity only in July and August will not be a long-term sustainable solution for tourism.

We are happy to answer the committee's questions.

**Charlie Gordon:** Mr Carter has touched on the subject of my first question. Has VisitScotland researched visitor experiences of Scotland's ferry services, either as a stand-alone project or as part of a wider research exercise? If so, what were the findings?

**Ben Carter:** To the best of my knowledge, a study of the visitor experience on ferries has not been done, although studies have been undertaken on passenger volumes and other matters on routes to the islands. However, we can look at what else we might have on record and tell the committee if we find anything.

**Chris Maguire (VisitScotland):** In a roundabout way, we have findings. We have not done direct research on the ferry experience, but we have research on island hopping that shows that 96 per cent of people had a very good experience or were likely to return, and the ferries are part of that experience.

**Charlie Gordon:** It sounds as if some qualitative questions could easily be produced.

Do ferry timetables and service frequencies meet tourists' needs? If not, what changes would you like to be made?

**Ben Carter:** That question does not have an easy answer. At times, reaching an island is more complex than travelling somewhere on the mainland. Short breaks are a growing trend in tourism and timetabling issues are more important when a break is shorter. In some places, the last train at night does not coincide with a ferry, for example. However, we recognise the complexity of timetabling. For example, someone who tries to get to an island such as Tiree on a same-day trip, first by train to Oban and then by ferry, will have a difficult experience, although the difficulty factor will depend on where they start out from. That of itself might rule out a short break to the islands. Timetabling is important, but the answers are not straightforward, given the range of places that people start out from to get to the islands.

16:15

**Andy Steven (VisitScotland):** The current timetabling to Shetland is adequate because the journey is long—12 or 14 hours. The visitor boards the vessel in the late evening, has something to eat, sleeps and wakes up at their destination. Whereas there may be issues in other areas, the Shetland ferry timetable has been tweaked over a number of years to allow it to work for as many people as possible. In saying that, I am bearing it in mind that everyone—whether their interest is in freight or tourism—has an input to make.

**Charlie Gordon:** I recently experienced what you describe, Mr Steven, as I travelled to Shetland for the committee's inquiry. The experience was thoroughly enjoyable.

I assume that potential travellers' first contact with VisitScotland might be by way of the VisitScotland.com website. When people think of travelling to the islands, I assume that they first look into the logistics of the journey before they go on to inquire about accommodation and other aspects of their holiday.

**Ben Carter:** It can work both ways. In many respects, the first thing that we have to do is to create a desire to visit the islands. Indeed, the islands and the imagery of the islands are often used to promote and market Scotland further afield. Creating that interest is often what it takes to get people to look around and delve further into the information by way of websites and so on. That is when they start to look into the practicalities of timetabling and accommodation.

**Charlie Gordon:** At that point there is presumably some fall off in interest; people are perhaps daunted by the travel logistics.

**Ben Carter:** I do not have the facts and figures on that, but without question, ease of travel is a factor. There is research—not specific to the islands—that shows the journey-time radius that makes travel appealing. The longer that journey time, the bigger the barrier it presents.

**Charlie Gordon:** But you cannot tell us a bit more about that. As you said in your introductory remarks, if people see the part of their journey that is by ferry as part of their holiday, perhaps their perception will change. With the best will in the world, when we talk about journeys to the islands, we are by definition talking about long distances. We are talking about island communities that some people south of the border do not even see on their television weather map.

**Andy Steven:** I believe that that has been the case.

**Charlie Gordon:** It is certainly the case in your case.

In the context of the inquiry, it appears that there is a lack of information and research on the interface between tourism and travel.

**Ben Carter:** At that level of detail, there is.

**Andy Steven:** Visitors do a lot more research themselves these days. If they are going to a remote destination, they are pretty aware of the logistical issues. Most people now seem to ask the right questions at the right time. Companies such as NorthLink Ferries have worked harder to make the journey part of the holiday. NorthLink has done that by raising its profile and the level of customer service.

**Charlie Gordon:** As I said, I recently experienced that. I wonder whether CalMac could do something similar, but I had better keep the thought to myself.

**The Convener:** We will perhaps taste its menu at some point.

**Cathy Peattie:** Leaving aside issues such as timetables and the ferry service frequencies, do current ferry routes meet the needs of tourists? If not, what new routes should be introduced?

**Ben Carter:** Most of the main tourism destinations are serviced. There has been some discussion about new routes. One that has come up in particular involves a change in the current service from Lochboisdale in South Uist. The current ferry link requires a seven-hour journey to Oban, and it has been suggested that an alternative route could go from Lochboisdale to Mallaig, on a similar timetable to the Ullapool to Stornoway ferry service. That would cut the journey time to three hours.

Over the piece, the connections are fairly reasonable, from the point of view of people being able to get to the key destinations.

**Cathy Peattie:** Staying on connections, are you satisfied that tourists are aware of and able to access integrated public transport information and services through timetables and tickets for journeys involving ferries, buses and trains? How might those elements be better integrated? Andy Steven talked about people researching things prior to going somewhere, but do you think that the services are as good as they could be in that regard?

**Andy Steven:** It is difficult to speak for all areas in that level of detail, but we do not tend to find members of the public having major problems doing what you are talking about. We are keen to publicise support mechanisms across the country to help people. We encourage people to talk directly to the visitor and walk them through the process—the personal touch is important, as it can enhance their experience from the first point of contact.

**Rob Gibson:** The committee has heard concerns about capacity on certain ferry routes during the summer season. What is your experience of the problem, and how best could it be resolved?

**Ben Carter:** In some respects, that is a million dollar question. In the Western Isles, trying to find accommodation in July and August is a challenge. Were we simply to add capacity in the summer months, we would also need to do something on the infrastructure side in the islands, to enable us to respond to that.

Where there is peak usage, exploring ways of timetabling services to ensure that turnaround times maximise the number of journey times from individual vessels would provide some opportunities for improvement, but I think that it is important also to consider the accommodation that is available. In that regard, extending the season is critical. For tourism to grow, we need the ferry service to be able to respond to that growth, but we also need the tourism industry to respond alongside that.

**Rob Gibson:** But do you not need the ferries to respond as well? In his paper on options for the northern isles ferry services, Professor Baird suggested that the provision of larger vessels, running to an improved timetable and with improved accommodation in Aberdeen harbour, needs more effort than has been put in so far.

**Andy Steven:** That issue has been looked into. Despite the improvement in onboard experience, the vessels that serve the northern isles are, unfortunately, not as good as we might want them to be. Their design is based on that of older vessels and they have to cope with the limitations of Aberdeen harbour. Currently, the service that is being provided is as good as it can be. As you

know, if the ferries go faster, they burn more fuel, which raises issues.

People ask whether the ferries that are sitting alongside the harbour all day could be used in some of the peak periods for daytime journeys. In terms of revenue from customers, a daytime journey is probably better value for an operator. However, there are more questions than answers. As Ben Carter said, it might be possible to increase ferry capacity, but if there is no accommodation for people when they get to their destination, there are no real winners.

**Rob Gibson:** There are two points here. One is that the Visentini-type ferries that have been talked about would enable a lot more people to get a cabin. The fact that it is difficult to get a cabin was a complaint that we heard about the present system.

**Andy Steven:** Cabins might be a luxury on some Scottish routes, but they are essential for the longer routes. Anything that adds cabin capacity is a good thing. The vessels are based on an elderly design. These days people tend not to want to share cabins with others. A four-berth cabin may be booked by one person so that they can have some privacy, which is understandable. Anything that adds some cabin capacity—and, therefore, some comfort capacity—will be welcome.

**Rob Gibson:** The ferry terminal must also be fit for purpose. To make NorthLink, in particular, provide a better experience for passengers, it must be proven that Aberdeen harbour can work using a quay that can accommodate bigger vessels or alternatives must be sought, as has been suggested. The issue must be balanced with the need to provide services for people who are using hospitals in Aberdeen or taking public transport from there. Does VisitScotland not have an interest in ensuring that serious thought is given to developing a vessel strategy?

**Ben Carter:** Absolutely. Andy Steven mentioned that there are different travel groups and travel patterns; more singles are travelling, for example. Given our knowledge of visitor demographics, we could make an input into the kind of strategic development that you suggest.

**Rob Gibson:** Good. Do you think that CalMac and NorthLink exploit fully the opportunities to provide tourism-related services such as mini-cruises to the northern isles?

**Andy Steven:** There was probably more flexibility for such services in the past; I expect that previous witnesses have touched on the issue. Operator flexibility is essential.

**Rob Gibson:** You think that flexibility is essential, but NorthLink put on a service for the island games that was not subsidised, because it

was not included in the tender. Is that not a ridiculous situation? The aim of the mini-cruise was to bring a unique group of people to the Shetland Islands.

**Andy Steven:** Flexibility is the key. Operators should be able to identify, to seize and to run with opportunities, as commercial operators anywhere do.

**The Convener:** I turn to the issue of public spending priorities. With any Government, there is a limit to the amount of public money that can be spent in an area. Is your priority expenditure on internal air services or on ferry services? What is the tourism impact of air services as compared with ferry services?

**Ben Carter:** The best numbers that we have come from research relating to the Outer Hebrides that was carried out in 2006. The number of passengers arriving by sea in 2006 was 191,000, whereas 71,000 came by air. The majority of those passengers—77 per cent of total traffic—were visitors. Sea is by far the dominant mode of transport. However, a comparison with 2002 shows that, although sea traffic grew by 4.4 per cent between 2002 and 2006, air traffic grew by 23 per cent. There are two different messages: first, sea traffic is and will remain for the foreseeable future the tourism industry's bread and butter; and secondly, the trend is towards an increase in air traffic. It is hard to determine what people's behaviour will be much further down the line, but for the immediate future ferries are far more important than air services for the immediate sustainability of the tourism industry in the Western Isles.

**Andy Steven:** I can add some figures for Shetland, which carried out a visitor survey in 2006. Probably because the journey to Shetland is slightly longer than the journey to the Western Isles, roughly 50 per cent of visitors came by air and 50 per cent came by sea. One mode of transport was as important to us as the other. It will be interesting to see what the figures are when we carry out our next survey in a couple of years, given that since 2006 we have seen the introduction of discount air fares, increased air capacity and direct flights to London.

16:30

**The Convener:** Were the surveys that you mentioned specifically of tourist journeys?

**Ben Carter:** The figures that I gave were for total traffic to the Western Isles, of which about 78 per cent was visitor traffic—so visitors are the lifeblood of services. It is unfortunate that visitor journeys were not broken down into air and sea journeys.

**The Convener:** We have heard conflicting views on the matter from witnesses. Some people argue that one form of public subsidy is competing with another without anything being achieved; other people seem to say, "Hey, it's all good." How do we strike a balance between priorities? The answer to my question might be different for different parts of Scotland. Do you want Government to take a particular direction?

**Ben Carter:** We need to have a proper look at the issue, so that we can give you a sensible, worked-up answer rather than a gut feeling.

**The Convener:** What are your views on the pilot road equivalent tariff scheme? Some routes to the Western Isles will be included in the pilot; other routes are not included. We have heard a range of views about whether there will be a noticeable or measurable impact on businesses and tourism in the areas that are not included.

**Ben Carter:** We welcome the pilot, which might provide answers that we do not currently have. The pilot will be interesting in that it will tell us to what extent price is a factor in people's decisions to visit the islands. I talked about the study on the Western Isles, which produced qualitative evidence that transport costs are a negative factor in people's holiday experience. However, we do not know whether a change in price would affect demand. It is one thing for people to say that they would like to pay less; it is another for more people to travel as a result of a reduction in fares.

It might be difficult to assess the impact of the road equivalent tariff in the peak season. The Western Isles are close to being fully booked during the summer months, as I said, so it might be hard to disentangle the extent to which the pilot helps tourism. How much accommodation is available is a rate-determining factor in a person's decision to take the ferry in the first place.

We hope that RET does not displace tourism from other island groups but brings additionality to the Western Isles and other islands. We do not know what will happen. Every visitor's decision-making process is different. For someone who has decided to go to the Western Isles cheaper transport might not be a factor, but for someone who wants to visit Scottish islands RET might influence their decision, so there might be an impact on islands that are not included in the pilot. We will not know the answers until the pilot is under way.

**Andy Steven:** We support the idea of additionality; displacement is a negative concept and we should not regard RET in such terms. I represent our most remote islands and I am interested in the pilot. The air discount scheme meant that more people travelled, so let us see what happens when ferry fares are reduced. As



Ben Carter said, we probably have more questions than answers. We will watch the pilot with great interest.

**The Convener:** Given Ben Carter's point about the impact of RET during the summer months, would it make more sense to consider specific seasonal initiatives to try to boost the tourism market—whether through short breaks or anything else—outside those peak times?

**Ben Carter:** A combination of things is needed, but a key issue for successfully growing tourism in the islands—and in almost all rural parts of Scotland—is extending the season as far as possible beyond the traditional months. One of the first places to start is with the spare capacity that normally exists outside peak times. Price packages could be used to entice people at different times of the year. We will watch with great interest whether the different price that is provided by the RET pilot makes the islands a more attractive off-season offering.

**The Convener:** How much input, if any, did VisitScotland have into the design of the pilot?

**Chris Maguire:** I am not aware that we had any direct input into the design of the pilot, but I am sure that officials in the tourism team in the Scottish Government had discussions with their colleagues in the transport division.

**The Convener:** The RET pilot will run over quite an extended period. Does VisitScotland have any views on how the pilot should be evaluated? What results should we look for to determine the success of RET and its applicability to other parts of Scotland after the pilot period?

**Chris Maguire:** A key test will be whether RET leads to additionality. That must be a fundamental test. A second issue will be whether RET has helped to drive tourism at the end of each season, as Ben Carter said. We are increasingly changing resources from our autumn campaigns into winter campaigns such as our winter white campaign. We need to consider whether RET can be used to drive additional traffic outwith the summer season. If the RET pilot achieves those two things, it will be successful from our point of view.

**Ben Carter:** It is hard to analyse the ones that got away. By that I mean that it is hard to know how many other people would have travelled if we had not been at full capacity. That is difficult to capture. If we could measure factors such as inquiry levels during those key summer months, they might provide an indicator of how much more supply would be needed to make that possible.

**Andy Steven:** It is worth pointing out that VisitScotland and ZetTrans are working together to try to get some of those data by finding out from people who expressed an interest in visiting the

Shetlands whether they came and whether the decision of those who did not come was influenced by price or availability. In any pilot, it is fairly key that we gather as much evidence as possible on which we can look back.

**The Convener:** There are no further questions but, as we are a little ahead of schedule, the witnesses might want to raise any points that have not come up in questioning. I am aware that some of our earlier questions on capacity, timetabling and integration focused more on the northern isles and less on the rest of Scotland. Do members of the panel want to make any other points in closing?

**Ben Carter:** No, thank you.

**The Convener:** I thank all three witnesses. We will suspend the meeting briefly to allow the panels to change over.

16:38

*Meeting suspended.*

16:40

*On resuming—*

**The Convener:** I welcome our final panel of witnesses: Captain Ron Bailey, the harbourmaster of Clydeport Ltd; Guy Platten, the managing director of Caledonian Maritime Assets Ltd; and Iain MacLeod, the chairman of Stornoway Port Authority, who is representing the British Ports Association. I thank the witnesses for joining us to answer questions. I invite you to introduce yourselves in more detail and to make any introductory remarks that you wish to make.

**Captain Ron Bailey (Clydeport Ltd):** Good afternoon. My name is Ron Bailey and I am the harbourmaster for Clydeport. I have been in post for 12 years. I was previously with the Manchester ship canal for 12 years, and prior to that I had a merchant navy career. In case members do not know, Clydeport Ltd's jurisdiction covers 450 square miles on the west coast.

**Iain MacLeod (British Ports Association):** My name is Iain MacLeod, and I am a businessman in Stornoway. I have been the chairman of Stornoway Port Authority for the past seven years, although I am not here in that capacity; I am here representing the British Ports Association. I hope to avoid talking about Stornoway and the Western Isles in detail because I am here to represent all the lifeline ports.

**The Convener:** Thank you for that clarification.

**Guy Platten (Caledonian Maritime Assets Ltd):** Good afternoon and thank you for the invitation to give evidence to the committee. My

name is Guy Platten and I am managing director of Caledonian Maritime Assets Ltd, a post I have been in since August of last year. I have 25 years' experience in the marine industry at sea and ashore. Prior to taking up my present post, I was director of marine operations for the Northern Lighthouse Board.

CMAL owns 31 ships and 21 harbours on the west coast, which are made available to an operator who provides the lifeline ferry services under a public service contract. CMAL aims to consider the longer term, beyond the six-year horizon of the PSC, assessing infrastructure requirements and the investment needed to maintain the harbours and replace ships as and when necessary.

CMAL consists of a small team of specialists in ports, civil engineering, marine engineering and finance. Our income is derived principally from chartering the vessels and from vessels accessing our harbours. As well as having ships and harbours, CMAL has responsibility for custody of the Caledonian MacBrayne brand, and is the principal employer for a number of pension schemes.

**The Convener:** Thank you all very much. Rob Gibson will open the questioning.

**Rob Gibson:** Good afternoon, gentlemen. Concerns have been raised in our ferry inquiry about deteriorating infrastructure at Scotland's ferry ports and harbours. How big a problem is that and which ports or harbours are worst affected?

**Guy Platten:** When we took over in CMAL, we did a full condition survey of all our harbours. Without being too specific, I can say that quite a few of the harbours need investment to ensure that they stay safe and to improve them for the future. Ensuring that we get the money to make the necessary improvements will be a challenge.

**Rob Gibson:** Will you elaborate on the number of ports?

**Guy Platten:** We have 21 harbours, and in at least 50 per cent of them there is a requirement to spend more money than was first envisaged.

**Rob Gibson:** Are any particularly seriously affected?

**Guy Platten:** Not in the short term, because they are safe. I make it clear that all the harbours are safe. However, we know from the full condition survey that there will be problems in the future and that we must start taking action now before the problems become urgent and threaten safety.

**Rob Gibson:** CMAL owns some harbours, but other organisations own other points of landing for our ferries. Do Clydeport and the British Ports

Association have experience of problems that are similar to those experienced by CMAL?

16:45

**Captain Bailey:** The only harbour that Clydeport owns is Ardrossan, and the ferry terminal there has had several improvements over the years. As Ardrossan develops, we will need to consider the potential for delays. You will be aware that, with the gales that we get, the service into Ardrossan sometimes has to divert to Gourock, so we will consider that in the future.

All the other berths—ports, harbours or piers—within the Clyde are owned by CMAL, North Ayrshire Council or Argyll and Bute Council.

**Rob Gibson:** We took evidence on the Ardrossan service and the number of times that the ferry on the route to the isle of Arran has to stop running. Is it acceptable for people to have such interruptions on a lifeline ferry service or, indeed, for them to have to go Gourock for inadequate services?

**Captain Bailey:** That is due to a combination of many factors. My understanding is that it happened about 50 times last year. Would that be correct?

**Rob Gibson:** Well, you tell me.

**Captain Bailey:** We understand that it happened approximately 50 times. If the weather was severe, the port of Ardrossan would have to be closed, but it could be a combination of that and a vessel's ability to handle severe weather. There are many factors, but we intend to do a study to determine whether we can put in any facilities at Ardrossan that would help to reduce that number.

**Rob Gibson:** I have been a regular user of the service over many years. I am surprised at you talking about a study now when the issue has been known about for years.

**Captain Bailey:** As I said, there is a combination of factors. The issue is not only the port, but the fact that vessels vary in their ability to overcome more difficult conditions.

**Rob Gibson:** Have previous vessels overcome them better than the present one?

**Captain Bailey:** I would have to ask CalMac about that.

**Rob Gibson:** That is fair enough.

**Captain Bailey:** I really would be taking a stab in the dark on it.

**Rob Gibson:** Yes, but the question followed on from what you said about some vessels being better than others.

**Captain Bailey:** Obviously, if one is carrying passengers, one has to be more careful than if one is carrying only freight. We used to have a Pandoro service out of there and the weather did not seem to interrupt its passage quite so often.

**Rob Gibson:** That is helpful. Does CMAL have any views on the service?

**Guy Platten:** We have plans to modernise and improve Brodick, which is the port that we own on that route. Unfortunately, it will be 2012 before those come to fruition, because we have a number of other projects into which we also must put time and money. However, we certainly have ambitions for the route.

**Rob Gibson:** I have raised the subject of accelerated low-water corrosion. Evidence in Arran suggests that people feel that the linkspan, which is perhaps more than 30 years old, is in need of urgent attention.

**Guy Platten:** As part of our condition check, we examined all the linkspans. CMAL's original budget for harbour maintenance was about £1.5 million a year. From our investigations, we would say that it requires about £3 million a year, because we recognise that some of the linkspans need attention, perhaps not this week or month but certainly within the next two or three years.

**Rob Gibson:** Is the Brodick pier one of those that need the most urgent attention?

**Guy Platten:** I would have to access the condition reports to see the exact condition of that linkspan.

**Rob Gibson:** Could you tell the committee in writing?

**Guy Platten:** Yes, we could do that no problem.

**Rob Gibson:** Will you explain why the infrastructure at Scotland's ferry ports and harbours has been allowed to deteriorate? Has routine preventive maintenance not been carried out or is it because of underinvestment? Do any of you have a view?

**Guy Platten:** My opinion is that there has been underinvestment over the years. Piers and harbours are not as obvious—not as sexy, if you like—as a new ship but, nevertheless, are really important if the ships are to berth safely. The underinvestment needs to be addressed.

**Rob Gibson:** Does Iain MacLeod think that there are problems of deterioration in some of the ports that he represents, because there has been no preventive maintenance?

**Iain MacLeod:** There is a problem with maintenance. It is not that the problem has not been addressed, but finding revenue to address marine repairs is always difficult because they are

extortionately expensive. Many problems lie below the high-water mark. Accelerated low-water corrosion and the funding of repairs continue to be a big problem for ports in Scotland.

**Rob Gibson:** Should we comment specifically on the need to deal with accelerated low-water corrosion? It cannot be a problem only in Scotland; the seawater and the metal are the same all over Europe.

**Iain MacLeod:** The problem has arisen over the past 10 years. It first raised its head in Aberdeen, and the engineer there is something of an expert on the subject. It is a relatively new problem.

Another problem in many areas is concrete corrosion. Many jetties were built around the end of the last war, when supplies were not of the quality that they might be today. I make no criticism of the people at the time, but the problems are now coming home to roost.

**Captain Bailey:** Clydeport has spent quite a bit of money, and we have had problems at Hunterston and with the concrete at Greenock. The port marine safety code came out in March 2000. It talks about the diversity of ports and the ownership of ports around the United Kingdom, and it points out to the boards of ports that they should set their tolls and dues to take account of the need for revenue to undertake repairs. In the UK, there is a great mix of private ports, council ports, trust ports and so on.

**David Stewart:** Mr Platten spoke about linkspans. You will be well aware of the situation on the Gourock to Dunoon service, for which the council—using European funding and other sources of funding—provided a £10 million linkspan. However, the linkspan is not compatible with the CalMac vessel; reasons to do with stern loading and bow loading mean that the linkspan cannot be used. It seems daft, but a fantastic linkspan cannot be used.

It is one thing to get the linkspan right, but clearly the vessels have to be compatible. You will be asked more general questions later this afternoon, but do you have an opinion on that specific example?

**Guy Platten:** Until the problem on the Gourock to Dunoon service is resolved, investment in vessels cannot be made. As you know, the vessels are more than 30 years old and are due for replacement.

**David Stewart:** Your organisation would own the vessels, and it would be for you to decide on the appropriate type of vessel for the future.

**Guy Platten:** It depends on which model is chosen. Earlier, we heard evidence from Professor Baird and Professor Kay on which model would be best. Such decisions are for others to make. We

own the two streakers on the route at the moment—the Juno and the Jupiter—and we are well aware of their condition. As I say, they are more than 30 years old and we will have to consider their replacement.

**David Stewart:** Will you be unable to make decisions on investment in that route until certain legal and political situations about its future are sorted out?

**Guy Platten:** Absolutely, because we will have to get access to funds or loans to buy a new ship. We will have to determine whether the vessel would be vehicle only, vehicle and passenger, or passenger only. Only then can we make investment decisions.

**David Stewart:** Would you consider the lease market as well as the purchase market?

**Guy Platten:** Absolutely. Unfortunately, not that many vessels are around on the second-hand market or the charter market at the moment, because there is a huge surge in demand for world shipping.

**Alison McInnes:** You have said that at least 50 per cent of your harbours need additional money. Can you estimate how much it might cost to bring all Scotland's ferry ports and harbours up to a good standard of repair within a reasonable time?

**Guy Platten:** I can speak only for the CMAL ports. Part of our mission is to consider the long-term future, so we have drawn up a 10-year maintenance strategy for all our ports. We would like about £3 million a year to bring our ports up to a good, safe standard, and to maintain them at that standard over the next 10 years. Major improvements, such as new terminal buildings, would require investment over and above the investment required just to maintain the status quo, for which, as I said, we estimate that we would need about £3 million a year.

**Captain Bailey:** Our main ferry port is Ardrossan, and we talk to CalMac Ferries and CMAL about it whenever we need to. There has been extensive development with the new terminal and the linkspans; two linkspans have been refurbished, and there is additional capacity. Looking ahead—I am perhaps jumping forward to further questions—we are still interested in looking at the Ballycastle link to Ardrossan. We have long-term plans for Greenock's Great harbour. We believe that there is still potential for a link to Ireland in future.

**Iain MacLeod:** I will come back to Mr Platten's comments on his requirements for funding for maintenance over the next 10 years. I know that he is very concerned about funding; not only must he find funding for the piers and jetties that he owns, but he must somehow find funding for the

piers and facilities that the trust ports own. That is of great concern to CMAL and the trust ports.

**Alison McInnes:** Can you quantify how much would be needed? I take it that that is additional.

**Guy Platten:** Yes, those are additional works that are required. The £3 million is just to maintain our own ports; improvements and bigger maintenance schedules have to be carried out, such as berth improvements and rebuildings, which cost a lot of money. Iain MacLeod is quite right—we have been charged with administering the grant in aid for both CMAL and the trust ports, and we have to work together to prioritise how that money should be spent. The truth is that money will be tight.

**Alison McInnes:** Do you think that we have in Scotland a sufficient strategic overview of our port infrastructure?

**Guy Platten:** Now that CMAL exists, at least half of my team are focused entirely on ports and harbours. We have found that we need to consider the long term, because ports and harbours need long-term investment, and a long-term strategy to determine the trade and maintenance patterns. CMAL is starting to do that, but there is perhaps a case for a Scotland-wide body. There was some talk earlier about some sort of maritime regulator for Scotland, and I support that.

**Alison McInnes:** How do you think such works should be funded in the longer term?

**Guy Platten:** The ports and harbours, whether they are owned privately, by the trust ports or by CMAL, are public utilities and there should be some support from the taxpayer to ensure that they are maintained and can provide the right services.

**Captain Bailey:** We are a private port. At Greenock, most of our berths are multi-user berths, so our revenue is ploughed back in to provide whatever the ship owner requires. The Ardrossan service, which is the only one for which we operate the port—all the others operate within the statutory harbour area—seems to have a reasonable business case, and we spend what is required as long as everything stacks up.

**The Convener:** Mr Platten, can you say a little more about the 10-year programme that you spoke about? You mentioned issues to do with ports and harbours infrastructure and some of the issues that might be less visible to passengers, as well as some of the more visible things such as ferry terminals. You also mentioned the lease or purchase of replacement vessels. I am interested in how you determine the priorities for those different areas of investment, and in who else helps to shape those priorities. For example, do

you consult ferry users, operators and other agencies that might be stakeholders?

**Guy Platten:** I have been in post since August last year, as have most of my team, so we have only been around for a relatively short period of time. Our first action was to find out about the state of the nation's ports and harbours, as well as the ships. The average age of the larger ships is now 17 years, and for the smaller ships it is 19 years. If we consider that the life expectancy of a ship is perhaps 30 years—although Professor Baird would argue that it would be a lot less than that nowadays—we see how often a ship needs to be replaced, and we have 31 of them. Apart from the Islay vessel, we have no new ships on order at present, so by the time the Islay vessel is delivered in 2011, the average age of the vessels will be 21. That issue needs to be addressed urgently.

We seek to engage with the operators on vessel replacement because they are the people who operate the ships, and we engage with other stakeholders as well. If we are building something to last and to be fit for purpose for 30 years, we want to get it right.

On ports and harbours, our first action was to do our condition survey and to draw up a 10-year action plan to get them up to or maintain them at the right standard. Tomorrow and the next day, we are going away to consider strategically our long-term vision for harbour and ferry developments. We will then take that and engage with the different stakeholders to get their views.

17:00

**The Convener:** When you say long term, do you mean after the period of the 10-year plan?

**Guy Platten:** Yes. I am learning very quickly that 10 years is a blink of the eye where assets are concerned. We have to start planning for 10, 20 and 30 years hence. One of CMAL's advantages is that it can do that. The day-to-day running of the ferry service is down to the operator; our job is to look at the long-term infrastructure and investment requirements.

We are talking about a possible major investment in the fleet of £200 million over 10 years. We would like to invest in the harbours to make the passenger experience better and to increase the number of terminals, making them destinations that we can be proud of.

**The Convener:** I will come back to the 10-year plan in a moment, but I am interested in the process that you use to formulate the longer-term priorities, and the scope for including ferry users— island communities and businesses that are based in the islands—in developing plans. It is easy to get forthright views about what is happening or

what is wrong now from some of those communities. Do you try and get people to feed into the longer-term questions about development and investment in the future? If so, how?

**Guy Platten:** We already engage with communities. CMAL is the statutory harbour authority at a number of locations and we are seeking to broaden that, which means that we have to engage with communities in order to find out what they need. Through that, we are building links.

We also engage with various ferry user groups. For example, I have been invited to go to Barra in the next two or three weeks to speak to the community council about shared plans that we might look at together. Our engagement with stakeholders in communities is a vital part of our planning process.

**The Convener:** Could you outline for the committee some of the specifics of your 10-year plan and how it is spread around the country?

**Guy Platten:** The 10-year plan is purely for maintenance of ports and harbours at the moment. We will look at each harbour and find out when investment or deep maintenance will be required. That can vary from harbour to harbour.

I will come back to the committee with the Brodick condition report, as has been requested. I do not have all the specific condition reports with me. At the moment, there is a spreadsheet that shows when, and on what, money needs to be spent at each harbour. For the first time, we have a good grip on the condition of our estate, and we can make our 10-year plan from that.

**The Convener:** When you say that the plan will deal mostly with maintenance, will it be visible to users or will stuff that needs to be done go on behind the scenes where users cannot see it?

**Guy Platten:** A lot of it will be done where users cannot see it. Maintaining linkspans or piers and jetties is not particularly exciting, but it has to be done.

However, there will be some major investments and improvements. For example, at Oban we have completed a second roll-on roll-off ferry berth and we have—we hope—covered passenger access to the ships. We are considering improvements in places such as Kennacraig and Port Ellen, and later this year we hope to start work on rebuilding Largs pier. All those things will be seen by the general public.

**David Stewart:** I disagree with Mr Platten; I find linkspans fascinating.

I have a number of questions about the acquisition of new vessels. We have spoken to many operators. As you know, we have met the board of CalMac and representatives of several

other companies, and we know what the world problem is. Building private vessels is difficult because of delays and inability to get engine manufacturing services, in particular. Obviously, there is a knock-on effect on leasing. As an aside, I mentioned to the committee several weeks ago that the Scandinavian consultant suggested to CalMac that in acquiring vessels, it should look regularly at the lease market to find out where prices are low. I know that, technically, that is a matter for CMAL rather than for CalMac, but it comes to the same thing.

In reality, what is your budget over 10 years, particularly for leasing and purchasing new vessels, assuming that new economic opportunities come up and there are new routes? I know that you have responsibility for ports and harbours, but let us separate things out. How confident are you that you will have £200 million over a 10-year period? Has that budget been confirmed?

**Guy Platten:** The £200 million figure is aspirational. It is the money that we will need to invest to replace the fleet. You will see from our figures that we have enough money to replace the Islay vessel—that is a given—but so that we can place further orders, our mechanism is to increase the operator's charter fee. It is inevitable that doing so will result in an increased subsidy requirement.

**David Stewart:** Is it CalMac's or your job to find out what customers want and where new routes can be developed?

**Guy Platten:** That is done in conjunction with the operator. Obviously, the operator has deep knowledge of the routes and the communities that they serve, so it is fundamental to the process. We also have a role to play, because we are trying to build for the long term, and we know how long it can take for a ship to be built, from a decision being taken that we want a ship to its being delivered. The process can take five or six years.

**David Stewart:** Let us consider a hypothetical situation. The board of CalMac approaches you and tells you that it wants a vessel to go from A to B, the sort of vessel it would like and the timescale within which it would like it. Would you then be asked to provide the budget and acquire a vessel by leasing or purchasing?

**Guy Platten:** That would be one way of doing things. We would then look to work up a specification and seek funds through loans, for example. If money is borrowed, it must be got back from somewhere, which inevitably leads to increased fleet charter fees.

**David Stewart:** Obviously, your organisation is still in the public sector. Do you still need permission from the relevant Government department in Victoria Quay to go ahead with such funding?

**Guy Platten:** Yes, we do. We get loans from the Public Works Loan Board, so we must get such approval.

**David Stewart:** So you basically put a business case to Victoria Quay and say, "This is the route that we want to develop, this is the vessel, and this is the cost." You then get approval for your proposal, borrow money and pay back that money.

**Guy Platten:** We pay money back and pass on charges to the end user, as any commercial organisation would do. In this case, CalMac Ferries Ltd is the end user.

**David Stewart:** Right. Do you have the same relationship with NorthLink?

**Guy Platten:** No. NorthLink ships are leased from the Royal Bank of Scotland.

**David Stewart:** So if NorthLink had new proposals, it would go back to that private bank to get provision for a new lease.

**Guy Platten:** We have no say in such matters, but I presume that that would be the case.

**David Stewart:** What you said about the budget is useful—I had been a bit unclear about it. I must remember that the figure that you mentioned was aspirational. You aspire to obtain £200 million in the same way that we all aspire to be First Minister.

**Guy Platten:** I used the word "aspirational", but the fleet will have to be replaced, so we will need at some point to find the money to do that. Some organisations can project only for the three years of a spending review period, and so will try to influence the next spending review. One of CMAL's advantages is that we look 10, 15 or 20 years hence rather than two or three years hence. We flag up how much money will have to be spent on vessel replacement in 15 years. I hope that doing so influences matters.

**David Stewart:** I forgot to mention another point that the Scandinavian consultants made: they said that vessels should be of a type. Obviously, economies of scale will be achieved as a result of mass producing vessels of the same type. I realise that vessels should be compatible with ports and that they should be the right size—Rob Gibson mentioned berths and so on—but does that point make sense?

**Guy Platten:** It makes a huge amount of sense. In partnership with colleagues from the Department for Regional Development in Northern Ireland and the department with responsibility for Gaelic affairs in southern Ireland, we are about to investigate a project for a common small ferry design, as we recognise that we all have small islands and our infrastructures are not too different. We are investigating whether we can

work together. It certainly makes sense to go out to the market for a number of vessels rather than for only one. Nowadays especially, shipyards are not too interested in one-off vessels, but they would be interested if we wanted three, four or five, and economies of scale would definitely be achieved.

**David Stewart:** One of the arguments that is used by the private sector is that it could acquire vessels easier and quicker than the public sector. I have never quite understood how that is the case, as I presume it operates in the same world market.

One of the innovative ideas that I have heard is that a vessel could be used for peak services on the west coast in the summer and used elsewhere in the world at another peak time there, which would involve moving vessels around. What is your view of that model, and have you considered it for your fleet?

**Guy Platten:** I would be happy to try that model. One has to ensure one has a ship for the peak periods, but there is nothing to stop one putting a ship on the market on a time-charter or voyage-charter basis over the winter months. The industry models are in place and the charter agreements exist, so it would be very straightforward.

**David Stewart:** Time is running out. My final question is also to Mr. Platten. If a private sector operator—or any other company—wished to use the ports that you operate, what sort of arrangement could you offer? Have you had approaches from private operators who want to utilise your ports?

**Guy Platten:** We have had informal approaches from a couple of potential operators. Obviously that information is commercially confidential. As yet, nothing formal is in place.

Our attitude is that our ports are open for all, but we must ensure that the lifeline services are maintained, so they have primacy over everything else. The lifeline timetabling must take priority, but if the berths are free in between times and it is logistically possible to do so, then we would welcome approaches from third-party operators.

**David Stewart:** Do you have existing customers or is it all aspirational?

**Guy Platten:** A number of ships use our berths in Port Ellen—a number of small cruise ships such as the Hebridean Princess and the Waverley also use our berths. We get a lot of fishing boats, and leisure craft also use some of our berths. We get a small income from them, but not much.

**Captain Bailey:** A fuel tanker uses Brodick monthly, as well.

**The Convener:** If members do not have any final questions, would the witnesses like to address any issues that have not come up?

**Captain Bailey:** Several private individuals have come to us looking to start up services. The committee is probably aware of the Clydefast hovercraft trial that has been around for some time. The operator of the trial began with fast mono-hulled vessels but has moved on to hovercraft travelling from Dunoon, Gourock and up-river.

I also went to Southampton with a lawyer from Dunoon who travelled to Glasgow every day and claimed that there must be a better way. However, nothing has come of those approaches yet.

Interestingly—although it is not a ferry—Loch Lomond Seaplanes Ltd has started up. The company has expanded to a larger plane—from a six-seater to a nine-seater—and is talking about getting a second one, which appears to indicate that there is a need for such a service.

We are all members of the British Ports Association. A colleague from Tarbert on Loch Fyne, who is concerned about the road there—the A83—has said that the potential for new routes to Tarbert has increased dramatically in recent years due to the high cost of fuel and the poor conditions of the main arterial routes. Good cargo ferry services from Tarbert to Gourock and Tarbert to the Ayrshire coast would benefit the area but it would have to stack up financially. I am of an age when there is nothing new in the world. I wonder with fuel costs whether we are approaching a time when there might be a use for the modern equivalent of the old Clyde puffer. Who knows?

**Iain MacLeod:** We have listened carefully to Mr Platten and what has come through is his concern about funding over the next ten years. He is aware that there are funding problems for the trust ports. He does not have an unlimited budget. He is carrying out a review of his own facilities and when that is complete he will look at the trust ports. When it was announced without notice in December that the money for lifeline services—the piers and harbours grants—was to be handed to CMAL to administer there was almost panic among the ports. I give credit where it is due, however: Mr Platten and his team have worked very hard to communicate with the trust ports. He did not mention that he has established the grant management group, which consists mainly of trust port members, along with a CMAL member, to consider management of the funds over the next 10 years.

17:15

The big problem, about which members have heard, is that a lot of money needs to be spent on CMAL's facilities. The trust ports have their own plans for repair and improvement, which must be funded from the CMAL budget, as must be replacement ships.

British Ports Association members are concerned about the age of the freight vessels that operate in Scotland, many of which are more than 30 years old. When weather problems occur, those vessels are frequently tied up and services are disrupted. We hope that something can be done about that. We have heard this afternoon about the long lead-in time in obtaining vessels. My members and I hope that the freight vessels are replaced by vessels that have passenger accommodation aboard, as in Norway, where high-quality vessels run up and down the coast. The Norwegians seem to be able to achieve that. If freight vessels could take 30, 40 or 50 passengers, that would help to deal with high demand at peak times.

We have not really talked about competition. One point to bear in mind is that competition need not be from other ferry companies. Airlines have operated under the air discount scheme, which has been successful. The airports have excellent facilities and their terminals are built and maintained to a high standard. Consequently, passenger expectations are high. Ports and ferry operators must consider that. However, reaching such a standard requires funding.

**Guy Platten:** I echo Mr MacLeod's comments. CMAL is committed to investing in our ports, helping with the trust ports and investing in replacing vessels. However, that will mean expenditure.

**The Convener:** I thank all the witnesses for spending time with us to answer questions. Your evidence is appreciated. The committee's report will be published when we have reached our conclusions.

That concludes today's agenda. Our next meeting is a week today, on Tuesday 13 May.

*Meeting closed at 17:18.*



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