



**PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE**

**AGENDA**

**28th Meeting, 2017 (Session 5)**

**Thursday 23 November 2017**

The Committee will meet at 9.00 am in the David Livingstone Room (CR6).

1. **Decision on taking business in private:** The Committee will decide whether to take item 3 in private.
2. **Transport Scotland's ferry services:** The Committee will take evidence on the Auditor General for Scotland's report from—

Fraser McKinlay, Director of Performance Audit and Best Value, and  
Graeme Greenhill, Senior Manager, Audit Scotland.

3. **Transport Scotland's ferry services:** The Committee will consider the evidence heard at agenda item 2 and take further evidence from—

Fraser McKinlay, Director of Performance Audit and Best Value, and  
Graeme Greenhill, Senior Manager, Audit Scotland.

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The papers for this meeting are as follows—

**Item 2**

Note by the Clerk

PAPLS/S5/17/28/1

PRIVATE PAPER

PAPLS/S5/17/28/2 (P)

**Public Audit and Post-legislative Scrutiny Committee**  
**28<sup>th</sup> Meeting, 2017 (Session 5), Thursday 23 November 2017**  
**Transport Scotland's ferry services**

**Introduction**

1. The Committee will take evidence on the Auditor General for Scotland's report [Transport Scotland's ferry services](#)<sup>1</sup>.

**Written Submissions**

2. Audit Scotland has provided a briefing paper ([Annex A](#)) and a written submission has been received from Transport Scotland ([Annex B](#)).

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<sup>1</sup> [http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr\\_171019\\_ferry\\_services.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2017/nr_171019_ferry_services.pdf)

**ANNEX A**  
**AUDIT SCOTLAND BRIEFING PAPER OF 15 NOVEMBER 2017**

1. The Audit Scotland report on Transport Scotland's ferry services was published on 19 October 2017.
2. Key messages from the report are as follows:
  - Ferries are an essential part of Scotland's transport network. There are an estimated 66 scheduled ferry routes in Scotland, managed by a range of public and commercial operators. In 2016/17, Transport Scotland spent £209.7 million on ferry services and assets, such as vessels and harbours. It operates three main ferry contracts, through which it subsidises 32 ferry routes, carrying over five million people each year. Between 2007/08 and 2016/17, Transport Scotland's spending on ferries increased by 115 per cent in real terms. Over this period, the number of passengers travelling on its subsidised routes increased by 0.3 per cent and car numbers increased by 16.8 per cent. Subsidies for the Clyde and Hebrides Ferry Service (CHFS) have increased by 185 per cent since 2007/08. This is mainly due to an increase in services, new vessels and the introduction of the Road Equivalent Tariff (RET). RET has resulted in higher passenger and car traffic but its wider impact has been mixed.
  - Transport Scotland's Ferries Plan sets out proposals to develop ferry services and assets between 2013 and 2022, at an estimated cost of £390 million in capital and £10 million a year in revenue. Transport Scotland has made significant progress against the commitments in the plan less than halfway through its duration. But the plan, and underpinning investment plans for vessels and harbours, is focused on the Clyde and Hebrides network. There is no Scotland-wide, long-term strategy which takes into account proposed developments to ferry operations, and the condition of about half of the harbours used by Transport Scotland's ferry operators is unknown. This means the full extent of Transport Scotland's future spending requirements on services and assets is not known. In the context of limited public finances, Transport Scotland will find it challenging to continue to provide ferry services that meet the needs of users within its allocated budget.

- The operators of Transport Scotland's ferry contracts are performing well and, in 2016, about 99 per cent of sailings were on time. Ferry users are generally happy with services but there is variation across routes and some frustrations exist. Transport Scotland's arrangements for consulting and involving ferry users could be improved. Ferry operations are complicated and responsibilities and accountabilities are not well understood by users. Transport Scotland does not routinely measure the contribution that ferry services make to social and economic outcomes at a network level, which makes it difficult to determine whether its spending is value for money. Better information would allow Transport Scotland to demonstrate the impact of its decisions and the contribution that ferries make to the Scottish Government's National Outcomes.
- The new CHFS contract started on time, in October 2016, despite delays and weaknesses in how Transport Scotland managed the procurement project. The chosen procurement method was new and the two bidders were not clear on what was expected of them. The bidders submitted over 800 queries during the tender process and there were delays in providing them with important information. Transport Scotland has previously treated ferry procurement exercises as individual projects rather than a programme. It is now developing a more strategic approach for future procurements which should help improve planning, the use of resources and knowledge transfer.
- Transport Scotland received one compliant bid for the new CHFS contract, which it awarded to CalMac at a cost of £868 million over eight years. CalMac's bid met the minimum quality requirements and was £128 million lower than Transport Scotland's estimate of the contract cost. Transport Scotland was not required to assess the 350 commitments in CalMac's bid, which makes it difficult for it to demonstrate the added value of the new contract. Transport Scotland updated the contract before its start date to reflect, for example, planned timetable changes and this has increased the contract cost to £975 million. Contract management arrangements are still evolving and could be strengthened.

**ANNEX B**  
**TRANSPORT SCOTLAND WRITTEN SUBMISSION OF 20 NOVEMBER 2017**

We welcome this Audit Scotland report as it confirms that ferry services are performing well and it underlines the Scottish Government's commitment to Transport Scotland's ferry networks and the vital services they perform in supporting the sustainability of island communities. Our ferry services are iconic transport links that make a significant contribution to the social, cultural and economic well being of our islands and Scotland as a whole. Consequently, our priority is to ensure the continued provision of safe, efficient and reliable ferry services to the remote and island communities which rely on them, as well as delivering best value for taxpayers' money.

Since 2007, the Scottish Government, through Transport Scotland, have invested over £1 billion in these ferry services. That investment has brought the introduction of new routes, the procurement of new vessels and the roll out of cheaper fares for ferry users. In the first full year of RET (2016), passenger numbers across the Clyde and Hebrides services increased by 9% and cars by 16%. We expect further growth in coming years on CalMac services and also on services to Orkney and Shetland when lower fares are introduced on the services to the Northern Isles next year.

Over the past decade we have overseen the procurement of 7 new vessels, investing £117m in the CalMac fleet, and provided substantial support to a number of significant port infrastructure projects. In addition, two new 100 metre dual fuel ferries worth a further £97m are being built for the Clyde and Hebrides network. All of our investment is subject to financial control and management to ensure cost effective use of resources.

As the report points out, the operators providing our ferry services are performing well. In 2016, 5.7 million people and 1.4 million cars were carried on 158,000 sailings. Excluding weather delays, which are outwith the operators' control, 99.7% of those services operated and 99.6% were on time. The Staff and crew on the Clyde and Hebrides, Northern Isles and Gourock-Dunoon routes deserve a great deal of credit for their hard work. Overall, it is also very pleasing to see that ferry users are generally happy with their services.

We have clear forward plans for our ferry network and services and we are keeping those updated. We led the development of the first comprehensive review of our ferry services, culminating in the publication of Scottish Ferry Services: Ferries Plan (2013-2022), which set out the way forward from 2013 until 2022. That document recognises the need to continually review our approach to providing these services and reassess the needs of ferry users. Audit Scotland recognise that significant progress has been made in the delivery of the Ferries Plan commitments. Since the Ferries Plan publication we have published plans for vessel replacement on the Clyde and Hebrides network. We have also undertaken an in-depth appraisal of the

services to Orkney and Shetland. Projects will be taken forward when resources are available and funding will be prioritised according to need. These issues will be considered within a framework designed to maintain the exemplary safety record of Scotland's ferry services.

We intend to bring our existing work into a single document with a consistent overarching, financially sustainable strategy for all the ferry services supported by the Scottish Government, to be rolled forward annually. In the longer term, and engaging with key stakeholders including our remote and island communities, the next Ferries Plan will be a single long-term strategy that is produced in the context of the National Transport Strategy and the Strategic Transport Projects Review. These are two of our most important pieces of work, and will allow us to ensure effective co-ordination between ferries and other modes of transport. Details of the next Ferries Plan are currently being worked through, but it will be ready in time for the conclusion of the current Ferries Plan in 2022.

We note Audit Scotland's observations in respect of the Clyde & Hebrides procurement. As always, we will ensure lessons learned from this procurement will be taken into account in the future. The procurement of the Clyde and Hebrides contract, led to a winning bid from CalMac that contains 350 commitments to improve services. The process included the establishment of the first Independent Procurement Reference Panel to ensure it was fair, open and transparent. The procurement exercise has also been recognised through national awards. As Audit Scotland state in their report, we are taking a more strategic approach for future procurements which should help improve planning, the use of resources and knowledge transfer within Transport Scotland.

Ferry services contract management arrangements and resources have been strengthened within Transport Scotland and will be kept under review. Likewise, we will continue to ensure we have appropriate resources in place to develop, monitor and report against the Scottish Government's long-term strategy and ferries investment plans. Linked to that we will be reviewing our engagement with ferry users in relation to policy matters. To aid transparency, we will always try and ensure roles, responsibilities and accountabilities are clear to stakeholders and ferry users.

In summary, and as indicated earlier, we welcome Audit Scotland's report as it highlights the Scottish Government's commitment to our ferry services and ferry networks. Looking ahead, our continued priority is to ensure the ongoing provision of safe, efficient and reliable ferry services to the remote and island communities which rely on them, while delivering best value for money to the taxpayer.