

## **Report to Partnership Meeting 24 November 2017**

### **RESEARCH AND STRATEGY DELIVERY**

#### **Audit Scotland – Transport Scotland’s Ferry Services**

##### **PURPOSE OF REPORT**

This Report provides details of the findings and recommendations included in Audit Scotland’s performance audit on Scottish Government supported ferry services. The full report and associated documents can be downloaded from the Audit Scotland website at <http://www.audit-scotland.gov.uk/report/transport-scotlands-ferry-services>

##### **BACKGROUND**

Audit Scotland’s recently published audit looked at Transport Scotland’s spending on ferry services to determine whether it is value for money. The Audit examined:

- whether there is clarity around the operation of subsidised ferry services, including the roles and responsibilities of the different bodies involved
- how much is spent on subsidised ferry services, what this achieves and how Transport Scotland demonstrates that its expenditure is value for money
- the extent to which Transport Scotland’s procurement arrangements for ferry services are appropriate and helping to obtain best value
- whether Transport Scotland has an evidence-based strategy for the long- term investment in ferry services and assets (that is, vessels and harbours).

The Audit focused on Transport Scotland’s subsidised ferry services. Audit Scotland did review ferry services that are operated by councils or the private sector, although consideration was given to how well Transport Scotland works with partners to plan and operate ferry services and assets.

The Audit reviewed Transport Scotland’s procurement arrangements for ferry services. This particularly focused on the procurement of the Clyde and Hebrides contract as the most recent ferry contract that Transport Scotland has awarded.

The report has four parts:

**Part 1** explains Transport Scotland’s ferry operations.

**Part 2** analyses the cost and performance of Transport Scotland’s subsidised services.

**Part 3** examines procurement arrangements.

**Part 4** considers the long-term planning of ferry services and assets.

**Appendix 3** sets out the methodology used to gather evidence, which includes desk research, data analysis, community visits and interviews with Transport Scotland and its ferry service

operators. Audit Scotland also spoke with private sector (commercial) operators, Regional Transport Partnerships (RTPs), councils and other interested parties, including trades unions. [Appendix 4](#) lists members of the advisory group who provided help and advice throughout the audit.

As part of the audit the Audit Scotland team visited ten communities which rely on ferry services. This was not a representative sample of ferry users but was used to understand the range of users' experiences and views.

## AUDIT SUMMARY AND KEY MESSAGES

1. 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.
2. Transport Scotland's Ferries Plan sets out proposals to develop 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.
3. 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.
4. 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.

5. 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.

## REPORT RECOMMENDATIONS

The Audit Scotland report makes a series of recommendations. These are reproduced below.

*Transport Scotland should:*

- *as part of its Strategic Transport Projects Review, develop a Scotland-wide, long-term strategy for its network of subsidised ferries. This should:*
  - *take into account progress already made against the Ferries Plan and proposed developments to its ferry operations*
  - *set out its intended benefits of subsidised ferry services, how these contribute to National Outcomes and how these will be measured, monitored and reported. It should then consider how this information could be used to inform operational and financial decisions and to demonstrate that ferry services are value for money*
  - *include an assessment of the long-term affordability of its spending on services and assets. This should take into account the level of service required, the condition of assets and the need for capital investment*
  - *set out how its spending will be prioritised across its network*
  - *be monitored regularly to ensure it is on time and on budget*
  - *be reviewed regularly to ensure it remains relevant and affordable*
- *ensure that it has adequate resources to develop, monitor and report against its long-term ferries strategy*
- *improve the transparency of decision-making for ferry users. This may include streamlining and formalising how it consults with and involves ferry users, by giving specific user groups a formal remit to comment on operational and policy matters*
- *improve its approach to procuring ferry services. This should include:*
  - *ensuring that procurement teams include staff with procurement qualifications and experience of the ferry sector*
  - *applying lessons from previous procurement exercises*
  - *building in sufficient time to prepare important project documentation, such as business cases*
  - *ensuring that contract specifications are accurate, up to date and clear to potential bidders*
  - *providing bidders with clear, good-quality and timely data to allow them to make informed bids*
- *strengthen its contract management arrangements by:*
  - *ensuring there is a sufficient number of people, with the right expertise, to effectively manage ferry contracts*

- *involving the contract management team in ferry procurement exercises to inform its understanding of contract requirements. Transport Scotland, along with*

*Caledonian Maritime Assets Limited (CMAL) and the ferry operators, should:*

- *better communicate their roles, responsibilities and accountabilities to improve customers' and stakeholders' understanding.*

The Audit Scotland report provides welcome recognition of the case for local government ferry services to be guaranteed through a fair funding settlement that eliminates inequity in the way ferry services are funded and specified for different island communities in Scotland. The report recognises this in paragraph 116 in respect of the case that has been made for the internal ferry services operated by Orkney Islands Council and Shetland Islands Council to receive additional Scottish Government support to top up the local government funding settlement which does not adequately compensate either Council for the cost of securing these lifeline services. The full text of the report is reproduced below:

“**116.** A number of other developments are also likely to have implications for Transport Scotland’s capital and revenue expenditure. For example:

- In 2014, the Scottish Government committed to the principle of ‘fair funding’ for Orkney and Shetland councils’ inter-island ferry services. Scottish Government funding for councils’ ferry services is currently part of their local government funding settlement. Orkney and Shetland councils supplement Scottish Government funding by about £2.5 million and £7.5 million a year respectively. In contrast, Transport Scotland subsidises inter-island ferry services in the Western Isles, as part of the CHFS contract, without financial support from Comhairle nan Eilean Siar. Transport Scotland has been discussing the future funding of inter-island services and assets with Orkney and Shetland councils for about two years. ‘Fair funding’ will require substantial capital investment plus annual funding to cover the operational costs.”

Frustrations about the lack of a clear specification on user consultation in the CHFS contract and a lack of consistency on stakeholder engagement across all services was recognised in the report. This issue was a concern for communities, regional transport partnerships and operators. The report recognised the efforts being made by HITRANS and Calmac Ferries Limited to provide a more transparent process for ferry stakeholder engagement but underlined the importance of getting this right. The case would also appear to be strong for ensuring this is afforded status in the specification of future ferry service contracts.

## **RISK REGISTER**

### RTS Delivery

Impact - neutral

Comment – The Audit Scotland report provides clear recommendations that if followed will have implications on the delivery of the Regional Transport Strategy.

### Policy

Impact – Neutral

Comment – The Audit Scotland report provides clear recommendations recognise a number of HITRANS policy priorities.

Financial

Impact – Neutral.

Equality

Impact – Neutral

## **RECOMMENDATIONS**

1. The Partnership is asked to note this report.

<b>Report by:</b>	Ranald Robertson
<b>Designation:</b>	Partnership Director
<b>Date:</b>	8 <sup>th</sup> November 2017