REPORTERS’ REPORT ON HIGHLANDS AND ISLANDS FERRY SERVICES

Subject: The Scottish Executive proposals for tendering Clyde and Hebrides lifeline ferry services

Meeting: 27th Meeting, 2 October 2002

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Introduction

1. This report outlines work undertaken by Des McNulty MSP and Maureen Macmillan MSP, and the Transport and the Environment Committee as a whole, into the Scottish Executive’s draft service specification for the tendering of the Clyde and Hebrides lifeline ferry services. The report reviews the oral evidence gathered by the Reporters and the Committee, and reaches conclusions and makes recommendations for action in a number of areas.

Background

2. On 23 January 2001 the Minister for Transport announced the Scottish Executive’s proposals for the tendering of Highlands and Islands Ferry Services. The proposals were subsequently put to the European Commission for consideration as required under the Regulations on State Aid to Maritime Transport.

3. The Committee considered the proposals on 28 February 2001 and agreed to appoint Des McNulty and Maureen MacMillan as reporters. It was agreed that the reporters would consider this issue further and report back to the Committee with proposed terms of reference for an inquiry into this issue.

4. On 12 June 2001 the Committee approved terms of reference for the reporters as follows:

Reporters will investigate

- the justification for and implications of the decision to tender lifeline ferry services in order to comply with EC guidelines on State aid in maritime transport.
- the development of the service specification for these services
- the need for an independent regulator, and an appropriate operator of last resort
- the structural, organisational and service delivery implications of this decision (including employment, pensions and Transfer of Undertakings (Protection of Employment) (TUPE) Regulations issues relating to Caledonian MacBrayne staff and the need for the service to be integrated with other modes of transport)

5. In addition to appointing reporters, the Committee also took evidence on the proposals from the Highlands and Islands Strategic Transport Partnership, local authorities, trade unions, and representatives of Caledonian MacBrayne on 18 June 2001, and the Minister for Transport and officials on 26 June 2001.
Initial Reporters’ Work

6. Reporters met informally with the Minister for Transport on 3 April 2001, and received background briefing on the issues from Executive officials on 28 April 2001.

7. On 11 July 2001 Reporters travelled to Brussels. They attended a meeting at Scotland Europa with representatives from CalMac, local authorities, Scotland Europa, the Scottish Executive and MEPs. Reporters also met with officials of the European Commission.

8. During the 2001 Summer Recess reporters travelled to the Highlands and Islands and Argyll and Bute, and engaged in discussions with local communities regarding the proposals.

9. The Executive appointed two sets of consultants to take forward matters relating to the tendering process. Burness Corlett and Partners (Maritime Consultants) were appointed to take forward the development of the service specification, reporters met with representatives of this firm on Tuesday 11 September 2001. Shepherd & Wedderburn WS and PriceWaterhouseCooper are taking forward the development of the structuring of the Vessel Owning Company (VesCo) and the Operating Company (OpCo), reporters met with representatives of these firms on 8 November 2001.

Reporters’ Interim Report

10. In September 2001, reporters made an interim report on the key issues emerging from Committee evidence taking sessions and reporters meetings prior to this date. The Committee as a whole considered the recommendations of the report at its meeting on 26 September 2001.

11. The Committee agreed to endorse the reporters’ report and forward it to the Executive. Lewis Macdonald MSP, the then Deputy Minister for Transport, issued a formal response to the report on 21 November 2001.

12. Summaries of both the reporters’ interim report and the Executive’s response to it are attached at Annex A and Annex B respectively.

Reporters’ Visit to Orkney

13. On 19 December 2001 the Committee considered and agreed a reporters’ trip to Orkney where a similar, although much smaller scale, tendering exercise has been undergone in relation to the Northern Isles ferry services. During the 2002 February recess reporters travelled to Orkney and engaged in discussions with representatives of local authorities and service users to gain an insight into the tendering process and lessons that might be applied to the tendering process for the Highlands and Islands ferry services.
Draft Service Specification

14. The Executive released the draft service specification for the Highlands and Islands ferry services network at the end of June 2002. The consultation period for the draft service specification is 12 weeks.

15. At its meeting on 22 May 2002 the Committee agreed a programme for reporters to consult on the draft service specification. The Committee further agreed that the Committee as a whole would then take evidence from the Deputy Minister for Enterprise, Transport and Lifelong Learning on the specification. Finally, the Committee agreed that, following this evidence taking session, reporters would produce a report on the specification for the Committee to consider and amend as necessary which would then be submitted to the Scottish Executive’s consultation.

Reporters’ Work on the Specification

16. The reporters consulted on the specification during the 2002 Summer Recess. Reporters held meetings in the Clyde and Western Isles area and spoke to individuals who will be involved in or affected by the tendering process regarding the possible impact of the proposed service specification. Reporters met with local authorities, representative groups of local service users, local service users, academics, economic development bodies, trade unions and representatives of Caledonian MacBrayne.

17. Reporters also met with the Executive officials who are taking forward the development of the service specification and also the structuring of VesCo in order to discuss the main proposals of the specification and also those aspects of VesCo which fall outwith the remit of the service specification.

Committee’s Work on the Specification

18. At its meeting on 4 September 2002, the Committee considered the key issues emerging from meetings held by reporters on the draft service specification. The Committee then took evidence from the Deputy Minister for Enterprise, Transport and Lifelong Learning on the specification at its meeting on 11 September 2002. The Official Report of the meeting is attached at Annex D.

19. The key issues emerging from the Reporters’ work and the Committee’s evidence taking session on the specification include:

- Scope of the specification
- Bundling of services
- Competition
- Costs and transparency
- Service levels and service development plans
- Fares
- Local employment issues
20. As a preface to the discussion of these issues, reporters want to highlight the fundamental importance of the ferry services to the economic and social sustainability of remote and island communities. Certain mainland peninsulas and all the islands off the west coast of Scotland are almost completely dependent on ferry services. The economies of the Hebrides and some of the more isolated Argyll islands are especially vulnerable to changes in the level of service.

21. Reporters consider that the draft service specification should form a framework for a service which not only provides a financially viable transport service but also forms the most effective basis for sustaining island life. While it is not part of the reporters’ remit to consider issues beyond the immediate impact of the tendering process, it was felt that the Executive’s proposals required to be considered in the broader context of rural strategy and in particular strategies in respect of island communities. So far as possible the reporters have assessed the proposals set out in the draft service specification with this in mind.

Overview of the Specification

22. Overall, the draft service specification was very much welcomed by the individuals and organisations consulted by reporters, including the Scottish Trades Union Council (STUC), Highlands and Islands Strategic Transport Partnership (HISTP) and Highlands and Islands Enterprise (HIE). In particular, reporters found there was strong support from the majority of individuals and organisations for the protection of current maximum fares and minimum service levels. In addition, the commitment within the specification to maintain current safety levels was strongly endorsed as the current Caledonian Macbrayne services were generally perceived to maintain excellent safety standards.

23. Reporters support the fact that the central provisions of the specification reflect the idea that the first tendering contract should, to a large extent, create a continuance of the practices on the current network, in order to assure service users that the tendering process will not destabilise the network.

Scope of the Specification

24. The reporters are of the opinion that the purpose of releasing a draft service specification should be to consult with interested parties on all subjects intended for the final specification. Concerns were expressed to reporters about the lack of detail in the draft service specification with regard to key areas of service.

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1 The specification proposes that the successful bidder must not exceed current maximum fares and must run minimum services according to the Summer and Winter timetable operated by CalMac prior to the transfer.
provision including channels for consultation, fare structure and the provision of last resort for the network.

25. HISTP has submitted evidence to the Executive on methods of consulting with service users during the initial 5 year contract. The Executive intends to use this as a basis for its own draft proposals which, it is intended, will be open to consultation later in the year. The final proposals for methods of consultation will be incorporated into the final specification. In terms of fares, the Executive has identified the need for research to review the fares structure. However the results of this research will only be available in time to inform the second tendering process. Finally, although the provision of last resort will be the responsibility of the VesCo, the conditions for its provision are of central importance to the provision of services should the OpCo cease to serve the network. The draft service specification states that as soon as the VesCo is established it should begin producing proposals on the provision of last resort for consideration by the Executive.

26. Reporters are aware of the importance of consulting fully on all proposed provisions for the specification in order to ensure that the final specification is a comprehensive framework which takes into account the views of those organisations and individuals with relevant expertise. For this reason, reporters recommend that the Executive takes the steps necessary to ensure that the draft service specification which is produced for the second tendering process is a comprehensive document and that the actual process of consultation is both thorough and inclusive.

Bundling of Services

27. The draft service specification proposes that the Clyde and Hebrides ferry services network (services considered eligible for subsidy by the European Commission and subsidised by the Scottish Executive) should be tendered as a single bundle. It also proposes the inclusion of routes within the single bundle which were previously outside the network, the creation of new routes and the inclusion of mainland to mainland routes (namely Gourock-Dunoon (passenger only) and Tarbet-Portavadie) following the Commission’s confirmation that these services are eligible for subsidy.

28. Reporters found that there was general support for extending the network and tendering it as a whole as this is likely to reduce the potential for “cherry picking” of routes, provide the optimum value for public money and aid the integration of ticketing and marketing services.

29. The main point of contention expressed by various organisations regarding the bundling of the network is the proposal that the Gourock-Dunoon service should be restricted to a passenger only service. The importance of the issues relating to this route to the tendering of the network are explored further in the section below on Competition.
Competition

Competition and State Aids Rules

30. The Executive has said that, in order to comply with State Aid rules\(^2\) and Regulation 3577/92/EEC on Maritime Cabotage, it is required to put the Clyde and Hebrides network out to tender.\(^3\) The Regulations provide for freedom to provide such services within the Community. However, they also recognise that account should be taken of the nature of certain specific services and of differences in economic development between Community members.

31. Specifically, the Regulation takes into account the transport needs of island regions and establishes in Article 4 the conditions under which Member States may conclude public service contracts or impose public service obligations (PSOs) as a condition for the provision of cabotage services on shipping. PSOs are defined as obligations which the shipowners, if they were considering their own commercial interest, would not assume or would not assume to the same extent or under the same conditions.

Subsidy Levels and Stability

32. Under the current system, Caledonian MacBrayne negotiate the subsidy for the Clyde and Hebrides network with the Executive on an annual basis.

33. The draft specification states that, in accordance with EU State Aid rules, the tendering contract will be offered to the bidder who requires the ‘lowest financial compensation’ for the five year contract to comply with the core provisions of the draft service specification. The annual subsidy will be calculated according to the five year subsidy and the inflation rate. It will then be paid to the bidder in monthly instalments. Clearly, the new system will provide for stability in the subsidy levels for longer periods of time than the present system based on annual negotiation.

34. As outlined above, the Executive is required to award the tendering contract to the bidder who complies with the specification for the lowest level of subsidy. This requirement is based on the assumption that bidders, in competing with each other, will strive to produce the lowest possible bid. However, the Executive concedes that, so far there has been limited interest from potential bidders in the tendering contract. Potential bidders may be deterred by the constraints that the provisions of the specification would place on the Opco.

35. Reporters are concerned that, should the number of bidders be relatively limited, there will be insufficient competition to drive down the subsidy levels proposed by bidders. As a consequence of this, the successful bid may not provide the best value to the taxpayer.

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\(^2\) see Article 87 (1) of the EC Treaty
\(^3\) Ministerial Statement on CalMac and State Aids
Implementation of Competition Rules

36. The draft specification states that EU competition rules are such that a vehicle ferry across the Clyde does not qualify for a subsidy as a lifeline service since there is an unsubsidised private sector competitor operating a vehicle service nearby. The passenger service is not considered to be in direct competition with the private sector competitor as it provides a different form of service, linking with other forms of transport and therefore the passenger service is eligible for subsidy. Following discussions with the Commission, the Executive announced that the passenger service would continue as a stand alone service within the undertaking. It was considered that the current passenger and vehicle service could not continue to carry vehicles and subsidise only the passenger service as this allowed for 'subsidy leakage'.

37. The Executive has indicated that it is unlikely that the OpCo would have the resources to lay on an additional unsubsidised vehicle service separate to the passenger service. But concerns have been expressed by local residents that, should the vehicle service cease on the Gourock-Dunoon crossing, Western Ferries will become a private monopoly.

38. This relates to a broader issue of principle. If private companies were to set up rival services that are anticipated to be profitable, then these profitable routes may be removed from future undertakings. The result would then be the creation of private monopolies on routes which had previously been deemed to be lifeline ferry services. This process is what has been referred to as 'cherry picking' and one of the Executive’s key objectives has been to prevent this happening. If some of the more profitable routes were to be lost it is arguable that this could deter other bidders from tendering for the less profitable routes, necessitating increases of subsidy if those routes were to be retained.

39. A related concern is the potential difficulties that would arise if a private company stopped servicing a route. It was suggested to reporters that any service considered a lifeline route should have a provision for last resort provided by the VesCo regardless of whether or not OpCo ran the ferry service on the route.

40. The Committee raised these issues about competition with the Deputy Minister at its meeting on 11 September. Members pointed out that enforcement of European Competition rules could have the effect of creating a private monopoly on the Gourock Dunoon route and outlined the implications of this on the network as a whole as well as on users of the Gourock-Dunoon service. The Deputy Minister responded by stating that the Commission would not be concerned if a service was run by a private monopoly and argued that, where no subsidy is involved, competition is a matter for the marketplace and that any anti-competitive behaviour was a matter for the Office of Fair Trading⁴.

⁴ Per Deputy Minister for Enterprise, Transport and Lifelong Learning, Col, Official Report
41. Reporters are concerned that there seems to be no scope for interpreting European Competition rules to address the circumstances of the network where some routes may be profitable but the overwhelming majority are subsidised. Reporters take the view that the Commission’s rigid requirements for the enforcement of European Competition rules should be challenged since it seems illogical that the application of rules designed to protect and advance competition should have the effect of creating a monopoly on an important route for a single private provider. Rather than simply implement these rules, the Executive should strive to persuade the Commission to accept an interpretation which takes into account the unique circumstances of the network.

42. Another option outlined by the Deputy Minister for the Gourock-Dunoon route would be to remove the route from the undertaking and offer it to bidders prepared to run the service without subsidy. While it would be preferable to secure the agreement of the Commission to a relaxation of the rules the reporters recommend that the Executive should work with the relevant local authorities to market-test the route for profitability and give consideration to removing the service from the undertaking if it proves profitable.

Costs and Transparency

43. In evidence, the Deputy Minister did not contest the fact that the Gourock-Dunoon vehicle service may be profitable and therefore that cross subsidy may not occur. However, he explained that the Executive had not been able to develop an accounting mechanism that could demonstrate this argument to the Commission.

44. Reporters are of the view that this problem highlights the importance of setting up a transparent system of accounting to allow the Executive to provide a financial breakdown of route costs wherever necessary. Therefore reporters strongly recommend that the Executive continues to invest in developing transparent accounting systems in order to be able to justify policies for the second tendering exercise.

Service Levels and Service Development Plans

45. HIE’s key concern following tendering, was the lack of sailings to remote islands. For example there are no sailings at weekends to Coll during the Winter meaning that schoolchildren have to stay in youth hostels on the mainland throughout term time.

46. Local residents and service users have also told reporters that at present the service levels are unresponsive to changes in demand including the needs of growing industries, such as fish farming, which are of importance to island economies.

47. The specification acknowledges the existence of unmet demand on the current network and encourages the OpCo to try to tap into this demand by stating that the successful bidder can put on extra sailings or extra routes. The specification
provides an incentive by allowing the OpCo to keep any profits arising from these initiatives.

48. Reporters note that, regardless of this incentive, the OpCo may lack the resources to experiment with new initiatives in order to develop its services given the constraints laid down in the specification in relation to fares and service levels. Although Reporters appreciate the need for these constraints within the initial tender, they recognise the need for flexibility in the long term in order to develop these services.

49. Reporters believe that there are insufficient incentives to encourage the OpCo to develop services which may not prove to be profitable in the short to medium term but which may meet broader social or economic objectives such as increasing employment levels on remote islands. Reporters also note that the limited contract period may deter the OpCo from developing longer term service development plans to respond to changing demands. Reporters were not convinced that VesCo would be either the most appropriate or the most capable body to carry out the task of taking forward service development planning.

50. Reporters note that the Executive plans to conduct research during the first two years of the contract to develop ideas for service developments. Reporters wish to stress the importance of exploring how service levels can be increased on the network and what mechanisms are required to allow services to develop in response to changes in levels of demand and changes in the needs of local residents. The reporters are of the view that there is a need for a structure separate from OpCo and VesCo to take responsibility for long term planning for the network. Reporters are also of the view that the structures for consultation should be radically overhauled to reflect the creation of the OpCo, the VesCo and any new planning structure.

51. Various proposals have been put to reporters in respect of schemes to test new initiatives. For example HIE and HITRANS suggested proposals for a route development fund jointly funded by economic development bodies such as themselves and the Executive. Under this scheme local authorities would bid for funds to run new routes and ascertain the demand and potential improvements these routes could provide. Reporters consider this to be a valid proposal, as was an alternative suggestion that a route enhancement fund be set up to allow additional sailings on existing routes by covering the marginal costs involved.

52. Reporters recommend that the Executive require potential bidders to contribute to the planning process in order to gain ideas from organisations with commercial expertise for new initiatives and development plans. The proposal by the Calmac Consultative Users’ Committee to require bids for the actual specification and an additional bid detailing suggestions for a service which is not constrained by fares and service levels is also worth serious consideration. This is similar to the ‘enhanceable franchise’ idea developed by the Strategic Rail Authority. It would also seem sensible to require bidders to outline their plans for the longer term so that their plans can be taken into account in the future planning of the Executive and other stakeholders.
53. Reporters recommend that serious consideration be given to the ideas of a route development fund/route enhancement fund. Reporters also consider that methods of assessing potential demand for services not currently offered by the Opco should be developed so that this information can be fed into the planning system.

Safety

54. The specification allows the OpCo to lay on any additional services beyond those detailed in the specification. Representatives from the STUC noted that the specification does not stipulate that these additional services should maintain the same safety levels and staff conditions as those prescribed in the document. Reporters can find no justification for a distinction being made between services within the undertaking and those outwith the undertaking so far as safety and staffing levels are concerned. Reporters therefore recommend the inclusion of a provision within the specification to ensure consistency in safety levels and staff conditions on all ferry services laid on by the successful bidder.

Fares

Road Equivalent Tariffs

55. Road Equivalent Tariff (RET) is a method of price setting which relates the fare charged for the ferry transport to the cost of driving the equivalent road distance. At its meeting on 22 May 2002, the Committee as a whole considered a petition on this subject, PE 421 by Alasdair Nicholson calling for the implementation of a form of RET on the Clyde and Hebrides network. The Committee agreed that reporters should take into account the issues raised in the petition when consulting on the draft service specification.

56. Reporters found that very few of those individuals and organisations consulted viewed the implementation of a form of RET as a practical option for the network. Concerns were expressed that the need for a large increase in subsidy levels to implement a form of RET would not sit well with a specification which sets a limited subsidy for 5 years.

Freight

57. The specification does not include a provision for the current discount scheme for hauliers as it is seen to contradict European competition law. Hauliers, such as DR MacLeod, expressed their concern to Reporters at the lack of such a scheme since even with the discounts under the current scheme, the fares on certain routes make it financially unviable to transport high volume, low cost goods. Concerns were also expressed by hauliers that high fares for freight meant they were subsidising other users. Reporters acknowledge the need for an equitable discount scheme to redress the balance for hauliers, including small hauliers carrying small loads relatively infrequently who do not benefit from the current system based on volume and the number of crossings per year.
58. In evidence, the Deputy Minister stated that Caledonian MacBrayne was developing a discount scheme based on volume and long term commitment which he believed would not breach European competition law. He also stated that he was confident that a discount scheme would be included within the final draft service specification. Reporters were very encouraged by the Deputy Minister’s comments and recommend that the Executive continues to develop its proposals for an equitable discount scheme.

Peak Fares

59. Currently the peak fare system is used on various ferry routes on the network including islands with infrequent lifeline services. Local residents such as representatives of Tiree Community Council have argued that the price of peak fares are extremely prohibitive and that a lifeline service should function on a first come first served basis.

60. Various organisations, specifically the Western Isles Tourist Board and the Calmac Consultative Users’ Committee, considered that there was scope for increasing the economic efficiency of the fare structure on the network by attracting higher volumes of traffic paying lower prices as a reward for early booking or using less popular services rather than on the use of peak fares. In addition, reporters are of the view that, the Executive should research the advantages of discount schemes such as:

- transferable discount cards for businesses
- ferry passes for purchase by frequent users
- multiple journey tickets (beyond the current 10 journey maximum)
- young persons’ discount cards

Local Employment Issues

TUPE and Pensions

61. The specification states that whether the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations will apply to the tendering process is a matter of law and whether it applies to the tendering process will not be confirmed unless the issue is taken to court. Consequently the specification does not dictate whether or not the successful bidder must comply with TUPE. However, the specification does include a provision that the OpCo should work on the assumption that TUPE does apply. If it is found by the courts that TUPE does not apply, the subsidy will be reduced by the equivalent amount that applying TUPE would have cost the OpCo. It is intended that this provision will remove any financial gains to be made by the OpCo from mounting a legal challenge against TUPE regulations. The specification includes a similar provision for the application of the Cabinet Office Statement of Practice in relation to the transfer of pensions.

5 Per Deputy Minister for Enterprise, Transport and Lifelong Learning, Col 3429, Official Report
62. Reporters found that groups were keen to retain the expertise of the Caledonian MacBrayne workforce and therefore wished to see TUPE implemented during the transfer of services. Trade union representatives in particular argued that the specification should contain the employees terms and conditions detailed in TUPE. This would ensure the effective application of TUPE regardless of whether the legal system rules that TUPE applies as the specification is a legally binding document in itself.

63. Members of the Committee outlined this proposal to the Deputy Minister in order to seek his views. The Executive’s view is that the provision of TUPE could not be incorporated into the specification as the provisions are extremely detailed and therefore their inclusion would make for a final document of an unwieldy size.

64. In response to this argument, reporters consider that there would be merit in including at least the baseline principles of TUPE within the specification and recommend that the Executive investigates the practicalities of this approach.

65. In evidence, one of the Deputy Minister’s officials argued that the inclusion of TUPE within the specification, without confirmation from the courts that TUPE would apply, could reflect a certain amount of presumption on the Executive’s part.

66. Reporters were not convinced by this reasoning, arguing that the provisions already in the specification regarding TUPE suggests that the Executive is of the view that TUPE should apply. Therefore, reporters do not appreciate why the inclusion of the provisions within the final specification would be considered more presumptuous than the Executive’s existing policy of discouraging legal challenges to the provisions within the current specification.

67. Reporters were encouraged by the Deputy Minister’s comments on his intention to provide effective safeguards to ensure the successful bidder enforces TUPE. Reporters would endorse a robust financial penalty system to ensure the application of TUPE at the point of transfer and also to ensure that the provisions of TUPE are not abandoned following the transfer or when terms and conditions come up for negotiation between Opco or VesCo and the relevant Trade Unions. Reporters recommend that financial penalties to ensure the application of TUPE are clearly set out in the final specification.

Gaelic

68. The specification states that ferries on certain routes should have announcements and signs in Gaelic as well as in English. However, it does not include any requirement for ferry crews to have any knowledge of Gaelic. Argyll and Bute Council and Western Isles Council noted to reporters that the ferry

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6 Per Deputy Minister for Enterprise, Transport and Lifelong Learning, Col 3435, Official Report
7 Per Sandy McNeil, Legal and Parliamentary Services Department, Scottish Executive, Col 3435, Official Report.
routes serve communities with a strong Gaelic tradition and that certain islands have a high population of people who are native Gaelic speakers. The reporters therefore consider it important for the specification to require each of these routes to be served by at least one crew member who can speak fluent Gaelic. Reporters consider that this provision would be particularly helpful in the unfortunate event of an emergency during a crossing.

69. Trade Union representatives were of the opinion that the proposal from the two Councils would not contradict EC procurement rules as the ability to speak Gaelic would not need to be a statutory requirement of all staff. At the Committee meeting, the Deputy Minister stated that the Executive was willing to explore the suggestion with the Commission. In the event that the Commission advises that the proposal breaches Procurement rules, reporters recommend that the Executive at least strengthen the wording within the specification to encourage the employment of one gaelic speaking member of crew on specified routes.

Integration

Tourism and Marketing

70. During meetings held in Stornoway, reporters heard various accounts of the lack of integration between different forms of transport in the Hebrides and the lack of accessibility to information on the ferry services. Reporters were concerned that the lack of integration combined with the lack of information would deter tourists from visiting the islands.

71. In terms of integration, reporters recommend that the specification includes wording which encourages the successful bidder to build partnerships with train and local bus operators and other ferry service operators. In terms of marketing and the provision of information, reporters recommend that the specification encourages the successful bidder to establish links with local tourist boards. 8

Performance Indicators

72. The performance levels outlined in the specification are tighter than those currently applied to Caledonian MacBrayne. Although good performance levels were deemed to be of importance, various organisations suggested that the rigid requirements of the specification militated against ferries linking up with other forms of transport in some instances. Ensuring integration of transport provision is particularly important when ferries may only sail three times a week to certain islands.

8 During a meeting with reporters, Neil McArthur, Chairman of the Western Isles Tourist Board stated that the Board would be very keen to build links with the local ferry services in order to capitalise on potential tourism markets.
73. Reporters recommend that the Executive ensures that the proposed performance indicators do not adversely affect the successful bidder's potential to integrate its ferry services with other forms of transport.

Transfer of Services

74. During the trip to Orkney reporters heard accounts from local service users of the problems encountered during the tendering process for the Northern Isles contract. The main problems seemed to be associated with the length of the tendering process with the final contracts being signed out approximately one year late. In addition, the stop-start nature of this procurement process appeared to put off potential bidders. Finally, the change of vessels on certain routes led to the need for changes to infrastructure at the ports including major new pier building projects. Unfortunately the delay in awarding the ferry contract meant there has been insufficient time available for port authorities to finalise capital schemes and deliver changes before the transfer of services (due to take place on 1 October 2002).

75. Reporters wish to encourage the Executive to take note of the problems encountered in Orkney, analyse the reasons for the time delays in the tendering process and prevent their reoccurrence during the tendering of the Clyde and Hebrides ferry services.

Provision of Last Resort

76. As previously outlined, the specification provides very little detail on the provision of last resort. One of the few details it provides is that VesCo will be responsible for the provision of last resort and that if the OpCo fails to run a service for 7 consecutive days the VesCo will have the right to ensure provision of services.

77. Alastair Gow, Director of Transportation and Property from Argyll and Bute Council has informed Reporters that the Council consider 7 days to be too long a period to leave isolated islands such as Colonsay or Tiree without a ferry service. Reporters endorse this view on the basis of the evidence they have gathered on the dependency of island communities on their ferry services and recommend that the Executive reviews this provision accordingly.

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27 September 2002