

The Provision of Lifeline Ferry Services: Delivery and Tendering

A report commissioned by the STUC to inform their response to the Ferries
Review by the Scottish Government

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¹This report is written in a personal capacity and is not the responsibility of the University of Glasgow.

Section 1 Introduction

1.1 Introduction

The research brief for the present report has changed since the inception of this work due to the fact that the timetable for the Review has been extended; the suite of documents to be provided by the Scottish Government (SG) has changed and the final consultation document (hereinafter referred to as the Consultation Document or CD), which was not expected until after our deadline, has now been published (10/6/10). In essence, however, the aims and objectives of the present research have remained largely unchanged and are as follows:

- To consider the best² method of providing Ferry services (including those which can be characterised as lifeline services)
- To focus in particular on the question of the proposed tender and the bundling of routes and
- To consider the problem of an ageing fleet, and the necessary programme of replacement, facing those responsible for the provision of ferry services in Scotland.

1.2 Methodology

The approach taken here is to apply well-known concepts from economic theory to the conceptual issues arising from the notion of public provision of services and tendering within the specific context of ferry services in Scotland. In addition, a number of interviews have taken place (see Appendix 1 for details) with senior management within both CalMac, Northlink and David MacBrayne Ltd and also with representatives of the RMT, TSSA, Unite and Nautilus in order to obtain the contextual detail which is necessary for a proper understanding of the current provision and the likely consequences of any future changes.

1.3 Background

Following a similar review in 2005 and following investigation by the European Commission (EC), the Scottish Government took the view that in order to comply with European law on non-discrimination in the provision of ferry services, it was necessary to go through a tendering process. The view that tendering was a necessity was, and remains, disputed by a number of

²The concept of 'best' refers to that which is the most socially optimal i.e. the most economically efficient taking into account external benefits such as other non-direct employment and income effects.

experts in this area³, nevertheless, it is still the view held by the current Scottish Government:

"Tendering is a requirement imposed upon us by EU rules and will continue to be a requirement for us. "

(Bullet point 13, Executive Summary, Consultation Document, 2010.)

However, one reading of the 2005 European Commission decision would be that it was not the failure to tender for services prior to 2007 that made the system of subsidies paid to CalMac, fail the Altmark Criteria⁴, but the lack of a clearly defined public service obligation.⁵ That is still the case for the Gourock-Dunoon route for which a separate tender process is now being prepared.

In preparation for the 2007 tendering process the state-owned ferry companies Caledonian MacBrayne and Northlink were reorganised. The current structure is described in Appendix 9 of the Consultation Document as follows:

Accordingly, the restructuring of Caledonian MacBrayne Ltd that took place in 2006 involved the creation of Caledonian Maritime Assets Ltf and a new group holding company, David MacBrayne Ltd, which is 100% owned by the Scottish Ministers and which in turn now owns Ca/Mac Ferries Ltd⁷ (which won the 2007-2013 Clyde and Hebrides contract), NorthLink Ferries Ltd (which won the 2006-2012 Northern Isles contract), Cowal Ferries Ltd (which currently operates the Gourock-Dunoon ferry service) and David MacBrayne Ltd HR (UK) Ltd (which provides a range of HR services to Ca/Mac and NorthLink).⁸

³ Kay, Neil (2005) and Bennett, Paul (2005)

⁴ The beneficiary must be entrusted with a clearly defined public service mission; The parameters for calculating the compensation payments must be established in advance in an objective and transparent manner; Compensation must not exceed the cost incurred in the discharge of the public service minus the revenues earned with providing the service (the compensation may, however, include a reasonable profit); The beneficiary is chosen in a public tender or compensation does not exceed the costs of a well-run undertaking that is adequately equipped with the means to provide the public service. See also <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/04/235&format=HTML&aged=1&language=EN&guiLanguage=fr>

⁵ Professor Kay has also written extensively on this point. See Kay, N, *Scottish Ferry Policy*, Fraser of Allander Economic Commentary, 2009, Vol 32, No 3 available at [http://www.strath.ac.uk/media/departments/economics/fairse/backissues/Fraser_of_Allander_Economic_Commentary_Vol_32,_No_3\[11\].pdf](http://www.strath.ac.uk/media/departments/economics/fairse/backissues/Fraser_of_Allander_Economic_Commentary_Vol_32,_No_3[11].pdf)

⁶ See Caledonian Maritime Assets Ltd's website at www.cmassets.co.uk

⁷ See CalMac's website at www.calmac.co.uk

⁸ This can be accessed at <http://www.scotland.gov.uk/Resource/Doc/935/0099973.DOC>

In addition to the costs associated with restructuring on such a scale the actual tendering costs for the Clyde and Hebrides contract by CalMac was £381,000 and the Northern Isles contract by Northlink was £463,000.⁹ These are not insignificant sums when set against the potential savings.¹⁰

As stated above, CalMac Ferries won the tender for 26 routes (Clyde and Hebrides) for the period 2007-2013 and Northlink won the tender for 2 routes (Northern Isles) for the period 2006-2012. Therefore, for the past five years they have together operated the vast majority of both island to island and mainland to island ferry services in Scotland.¹¹ The other services are run mainly by the local authority or community-owned operators. There are some private operators such as Western Ferries on the Gourock to Dunoon route and Pentland Ferries on the Pentland Firth route as well as some other smaller independent operators, some of which operate only at certain times of the year.

The performance of the CalMac and Northlink operations have been entirely satisfactory and customer satisfaction has improved substantially (eg reduced number of complaints and independent evaluation using 'mystery shoppers').¹² Both companies have invested considerably in training for quality improvement, a matter we will return to later.

There is no evidence offered by any party that these services could be provided at a cost lower than current levels and still provide the same levels of provision, quality and safety. This cannot be taken to mean that there are no avenues for cost savings, but such savings may have to be at the expense of levels of provision, quality and safety. However, there may well be options for reducing costs by varying the schedules at different parts of the year or other variations in the specific nature of the routes, timetables and journey times. At the moment, the main operators CalMac and Northlink are prevented from making such changes without the specific agreement of the Scottish Government. We will return to this point later in the discussion of

⁹ The costs for CalMac can be found in the 2007-8 Annual Report, Note 7

<http://www.calmac.co.uk/About%20Us/annualreports.html>

The costs for Northlink can be found in the 2006-7 Annual Report, Note 10

<http://www.northlinkferries.co.uk/Corporate%20information/annualreport2007.html>

¹⁰ Findlay, J. (2005a). 'The Financing of Lifeline Ferry Services to the Clyde and Hebrides', a report commissioned by the RMT and the STUC

¹¹ For full details of all the services and operators see Consultation Document, June 2010, Table 1, pp 15-18

¹² This information was provided in interviews with the outgoing Chief Executives of David MacBrayne Ltd and his successor in an interview dated 9 June 2010; and with the HR Services Manager responsible for Northlink in an interview dated 27 June 2010. In addition, detailed information was supplied by the Records Manager of David MacBrayne Ltd on 19 August.

what ferry services are needed or appropriate for each community (CDQ 14 - 17).

In Section 2 the discussion will relate to the questions specifically asked in the consultation exercise (hereinafter referred to as CDQ followed by the appropriate number). Sections 3 and 4 will cover a number of matters relevant to the research brief, which are not otherwise covered and Section 5 will contain a summary of the key issues and some concluding remarks.

Section 2 Scottish Ferries Review

- 2.1 The Consultation Document sets out the national objectives in subsidising ferry services as being a contribution to the plan:

"Tofocus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. "

(Bullet Point 32, Executive Summary, Consultation Document, 2010.)

The specific objectives in relation to ferry services are:

"ferry services should be safe, sustainable, efficient, responsive to local needs and appropriate to the requirements of those using them;

ferry services should contribute to the sustainable population growth on our islands and in our remote rural communities; and

ferry services should be affordable and offer best value for public investment.

(Bullet Point 37, Executive Summary, Consultation Document, 2010.)

Additional objectives are set out in terms of emissions reduction and objectives in terms of accessibility are assumed to be incorporated into the first one set out immediately above.

In order to elicit responses which would assist in arriving at a plan to meet these objectives the Consultation Document contains a series of questions. The focus here will not be on every question but on those which are most pertinent to the objectives of this research as set out above.

- 2.2 Do you agree that change is required to improve consistency in provision and secure funding for the future? (CDQ1)

The argument set out in the Consultation Document centres on the need to for a programme of replacement for a fleet which is, in large part, nearing the end of its effective life. The amount which would be required in the lifetime of the review (up to 2022) is, according to the CD, between £509m and £604m. This is based on the existing routes and does not take into account any changes or developments of ferry services which may require an expansion of capacity but could, at the same time, generate an expansion of revenue (reduction in subsidy). We will return to this point in paragraph 2.9.

Given the nature of CMAL as a public corporation, it is limited in its capacity to borrow to fund replacement vessels. In the context of the current plans for public expenditure reductions, and taking into account the inability of the Scottish Government under current rules, to borrow on its own behalf, CMAL have been considering alternative means to deal with this issue which are outline in the CD (Bullet points 16-18).

The way that the SG has posed this question certainly narrows down the range of options that could be considered. However, there is no reason, in principle, that a wider discussion could not be had. This is a decision which has implications over the long term (a period of perhaps 30 to 40 years) but the options under examination are being set out in the context of a much shorter term crisis in funding and an associated lack of supply in the shipping market (ie vessels withdrawn from sale because the expected price is too low¹³).

There are a number of possible approaches to this problem in addition to the ones put forward in the CD.

In terms of the small fleet, there is currently a project underway, funded by the EU and involving partners from both the north and south of Ireland.

"The Small Ferries Project is a unique study to establish how best to design and build a fleet of small ferries to serve remote communities off the Scottish and Irish coastlines. "

This project aims to:

"examine a common design and procurement strategy for small ferries which could be used by each of the partners. "

This has the potential to lead to:

"reduce overhead costs and increase the potential for efficiency savings through more joined up working across the jurisdictions. "

¹³ This information was provided by David Mac Millan HR Services Manager for David MacBrayne HR (UK) Ltd on 27/7/10

(<http://www.smallferriesproject.com> accessed on 1/8/10)

Such strategies are likely to lead to cost savings over the longer term and could be developed and extended. What is clear is that potential for savings along the lines indicated above are more easily realised in the context of all routes remaining in a single bundle – an option only available in terms of a public sector solution.

The current pressures (in relation to the state of the shipping market) which face the main current operators would also be faced by any other company which acquired the tender to provide ferry services on single routes – assuming, for the sake of argument, that they are using their own vessels. However, they are unlikely to have the flexibility which a larger operation has: both in terms of accessing economies of scale in procuring and in making contingency arrangements in the meantime by moving vessels around different routes. In addition, there would be concerns that, in this context, a private sector operator may be more inclined to cut costs by reducing maintenance expenditure to the very minimum required. This is a practice which is diametrically opposed to the practice of CMAL which maintains vessels to a standard higher than the minimum and thereby extends the life of the fleet. These matters do not arise solely as a consequence of differences in the rate of time discount between a private and a public sector operator involving, as they do, choosing short term expediency over long term cost reductions, or as a result of the current financial climate, but they arise also as a result of the very nature of a private company in which the pursuit of profit as the overriding objective can be to the detriment of both quality and safety – a matter to which we will return later.

The CD acknowledges the importance of both 'economies of scale and scope in both vessel and infrastructure procurement' but suggests that these would be difficult to achieve due to the variations in the subsidy arrangements across all Scottish ferry services. If the governments of Scotland, the Republic of Ireland and the Northern Ireland Assembly can come together to procure vessels as outlined in the Small Ferries Project, there seems to be no reason why the current operators in Scotland cannot do likewise if there are savings to be made. Indeed CDQ27 explicitly invites responses to this idea. Clearly a common procurement system or some form of collaboration in procurement is likely to bring efficiencies in scale and scope which will reduce costs well into the future.

The imminence of a tender process, in which there is any remaining possibility of allowing private operators to use their own vessels, makes a full and transparent discussion of the state of the fleet, and the exact timetable for replacement, almost impossible from the point of view of CMAL which would have to safeguard commercial confidentiality. In that scenario (ie

where CMAL ships are not used), the cost of the vessels for a private operator would form part of the charge to the SG in terms of the size of the subsidy. In that event, the public purse would be paying for vessels which it would never own.¹⁴

As it stands, however, the CD makes clear that they are not considering allowing private operators to use their own ships for the vast majority of the routes, so the question of investment in the fleet and the tendering process are quite separate. So, if the tender requires the operator to lease vessels from CMAL then the problem remains as to how the programme of replacement is to be funded. It may be that at the point where any of the current vessels go out of service, leasing for a period (if vessels are available) may be necessary until such times as the current financial restrictions begin to ease. This does raise the question as to whether leased ships come with crews which raises additional, significant problems.¹⁵

Another approach could be to seek to fund, at least partially, the programme of vessel replacement, by expanding high demand services (initially by using existing vessels more intensively) and thereby expand revenue. This is linked to the fares policy and is discussed further in Section 2.8.

- 2.3 Do you think that harbours should be self-funded through harbour dues or do you think the current system of funding improvements through grants should continue? (CDQ2)

On the question of whether ports and harbours should be self-funding, the difficulties raised in the CD about losing control of expenditure on infrastructure and facilities are well made and acknowledged here. The difficulty arises in terms of a move to a system where instead of making grants which can be managed, the costs are likely to form part of the operating subsidy which is less amenable to direct control. In addition, the independent review¹⁶ commissioned by CMAL and released as part of the Ferries Review concludes that there is 'no specific evidence that ports are not operated efficiently' but makes a number of recommendations to improve regulation.

If, however, there were to be any unbundling of routes, a system of full-cost pricing for use of harbour facilities would, at least, ensure that there would be no hidden subsidy to private sector operators on potentially profitable routes.

¹⁴ This is a point acknowledged by the SG itself as outlined in CD Chapter 2, bullet point 29.

¹⁵ See Findlay, J, evidence to the Local Government and Transport Committee of the Scottish Parliament, 31 May 2005b available at http://www.scottish.parliament.uk/business/committees/lg/or-05/1_g05-1902.htm

¹⁶ Review of Scottish Ports Hosting Lifeline Ferry Services, June 2010, Fisher Associates available at <http://www.scotland.gov.uk/Resource/Doc/935/0100133.pdf>

2.4 How much of the funding should come from the users of the service?
(CDQ3)

A response to this question is tied up in responses to questions about development of services and the setting of fares.

2.5 Do you agree that we should test the market by tendering some routes on a single basis with the option for the operator to bring their own vessels?
(CDQ4)

The narrative in this section of the CD itself sets out some of the difficulties which would arise as a consequence of unbundling of routes, particularly in the event that private operators would be allowed to supply their own vessels. These relate to what would happen to any vessels not required by tendering organisations. If CMAL were to dispose of them then they would not be available next time round, leaving the SG with no alternative but to pay whatever charge was made by private operators. Disposing of them now would also mean that there is a danger of disruption to services given the specialised nature of these ships¹⁷. Other potential problems with this proposal have also been partially addressed above.

One point which should be made is that such operators do not necessarily have to own a vessel (indeed they are unlikely to own a vessel which is suitable for the waters in which it will be required to sail¹⁸), but may

themselves lease a vessel in order to tender for the route. In those circumstances, there seems to be no reason why a private sector operator would be able to lease on more favourable terms than CMAL, should such a need arise. Whether a private operator leases or owns a vessel the SG will be required to pay for it anyway in terms of the subsidy, a point that the CD acknowledges.

There is another, potentially more serious issue which relates to the concept of the Operator of Last Resort. Professor Neil Kay has written extensively over

¹⁷ One aspect of the specialised nature of these vessels (in addition to the others mentioned elsewhere in this report) is that, at time of build, they are constructed so that they have 'derogation' from the normal restrictions from carrying dangerous goods. For example, they can carry both hay and fuel at the same time -this has obvious benefits in terms of economies of scale -and clearly meets the normal needs of the islanders.

¹⁸ In an interview with Phil Preston of CalMac conducted on 17/8/10, he indicated that the 31 vessels currently used by CalMac are 'largely interchangeable' with obvious benefits in terms of flexibility and avoidance of service breaks. More importantly, in this context, they are all seagoing vessels and are built to sail in waves up to 5m; the nearest equivalent fleet is in the Baltic and they are restricted to 2.5m waves. So the question of who can lease a vessel more cheaply is largely irrelevant since very few such vessels are available. Furthermore, according to Mr Preston, 'small ferries do not exist anywhere else'.

a long period on this very matter and it is, to date, still unresolved¹⁹. The need for an Operator of Last Resort exists whether or not there is a public or private operator of a service but it is undoubtedly more crucial in the latter case, both in the tendering process (where unsuitable operators would be likely to apply in the knowledge that the absence of an OLR will give it the upper hand in future negotiations with the SG) and in the carrying out of the contract itself (where the issue of moral hazard arises both with regard to the maintenance of the vessels²⁰ and, more crucially, in terms of the completion of the contract on the original terms). Specifically, the incumbent would have an incentive to simply seek to renegotiate the contract in its favour, in the knowledge that the SG would have no alternative but to comply. There is an even greater risk of this if a failure to win the contract were to lead, as it most probably would, to the demise of CalMac.

In the status quo case, while there would still be a need for an OLR, CalMac and North link operate in the context of a completely different set of structural relations to the SG and face a different set of incentives to that of a private company. This, in and of itself, would make the chance of these outcomes being realised far less likely.

While the sections above are not necessarily linked to the unbundling of routes (ie there is still a need for an OLR even if all routes are tendered as one bundle), it is far more likely that a private sector operator would both bid for, and win, a tender for a single route than for the whole bundle and therefore the probability of these potential problems becoming actual problems increases.

Finally, but very importantly, there are external benefits which currently arise as a result of the operations of CalMac and North link which would not arise (or not to the same extent) in the context of a private operator. These together with a discussion of safety issues are contained in Sections 3 and 4.

2.6 Do you agree that Ardrossan-Brodick, Wemyss Bay -Rothesay, Ohan – Craignure, Largs – Cumbrae and the Pentland Firth are the correct routes to consider tendering as a single route? (CDQS)

and

Should the remaining routes stay within 2 bundles? (CDQ7)

¹⁹ Kay, N, 2010, The Ferries and the Last Resort: how the Government is putting the public interest at risk, available at <http://www.brocher.com/Ferries/LastResort.htm>

²⁰ See Findlay, J, 2005a and 2005b op cit

SG have offered no reason as to why the specific routes mentioned should be tendered separately other than on the basis of passenger numbers. Indeed, there are arguments against doing so based on the specialised nature of the vessels currently used on at least two of these routes which are necessary given the shallow-draft berthing. There is no suggestion that there are specific problems with the current provision on these routes and the only assumption to be made is that these are routes which are potentially profitable and therefore attractive to the private sector. Given all the other problems outlined so far with regard to changes in the status qua, the risk associated with such changes appear to outweigh any potential benefits. It is not clear why such cherry-picking should be facilitated by the SG and the European Commission decision of 2005²¹ (summarised in Appendix 9 of the CD) specifically allows for bundling as it allows for 'maximum flexibility of the fleet to best serve the network' and the CD also acknowledges this in the statement:

'bundling of all routes enhances integration of the network by making it easier to combine safety, quality and environmental aspects of vessel and port operations and to ensure that standards are applied evenly across the network'

(CD, Appendix 9)

In effect then the suggestion that these routes, with large numbers of passengers annually, should be tendered separately means that higher numbers of people may be offered a ferry service which could become less reliable, less safe and of lower quality.

Finally, bullet point 42 of Chapter 2 of the CD contains 'arguments against retention of these bundles'. On examination it would appear that the first point in the list 'the high cost of the services in their current form' is not obviously related to bundling; the second and third points, which relate to larger bundles being more difficult to bid for, are effectively the same point and the fourth point appears to have been put in the wrong place as it is effectively an argument for retention of the bundle. So, the only argument remaining for splitting the bundle appears to be that it would facilitate the entry of private operators. Finally, none of these routes involve the communities which the HIE Economic Work Package Report²² identify as the

'specific communities where investment inferry services is most likely, in relative terms, to produce the greatest contribution to GES..'

²¹ http://ec.europa.eu/energy/coal/state_aid/doc/decisions/2008/2008_0016_uk_c.pdf.

²² Scottish Ferries Review: Economic Work Package prepared by Reference Economic Consultants for Highlands and Islands Enterprise & Scottish Government, February 2010 can be accessed at <http://www.scotland.gov.uk/Resource/Doc/935/0099986.pdf>

This reinforces the view that the only motivation for selecting these routes for a single tender is to facilitate the entry of private operators, rather than to improve the quality and safety of ferry services or to enhance the Government Economic Strategy. Discussions mentioned immediately below about loosening and lengthening the contract are also subject to the same criticism.

- 2.7 Should we consider the implications of a looser tender, where a minimum level of service is required but where the operator has flexibility to innovate and reduce costs where they see fit? (CDQS)

The CD asks respondents to consider this question in the context where a 'minimum level of service' could be specified. Given that a) that minimum is unlikely to be acceptable to the various island communities unless it is set at the existing level of service and b) that a private operator, on winning the tender, would have an incentive to provide only the minimum level of service (particularly given the fact that there are no profitable routes at present), then it is not clear that this would constitute an improvement on previous tender specification arrangements. Any associated lengthening of the contract, not specifically mentioned here, but mentioned elsewhere by those carrying out the Ferries Review, carries with it some potential dangers. The only conceptual reason for tendering services is that the pressure of competition is believed to drive down costs for the same service; lengthening the period of the contract, in fact, relieves this pressure. The difficulties in choosing the correct contract length in order to achieve the presumed benefits while encouraging entry by private operators is well known in economics²³ and, in practice, is extremely difficult to get it right. This introduces a further degree of risk in separating out the bundle compared to the option of retaining the bundle.

- 2.8 What should be the rationale for, and purpose of, the fares policy? (CDQII)

This question can really only be considered in the context of what services are to be provided. As mentioned above, the replacement of the fleet and the problems surrounding that question could be resolved in terms of reviewing the provision of services and identifying whether or not there is potential for expanding services where there is demand and thereby increasing revenue. For example, it may be that there are routes where it would be possible to increase capacity (either by acquiring new ships or running current ships more frequently), and expand revenue (either by reducing fares if demand is less elastic (ie less responsive) or increasing fares if demand is still inelastic or by leaving fares constant) and use the increased revenue to fund any replacement

- ²³ See for instance Salanie, Bernard, (1997), *The Economics of Contracts: A Primer*, MIT

vessel and/or to reduce subsidy. The key issue here is that these issues should not be artificially separated.

2.9 What kind of ferry service should be funded? (CDQ14 --17)

The conceptual issue here is the distinction between what ferry services are 'needed' and what ferry services would be 'demanded'. This may determine what should be funded and what should be delivered at fares which reflect market rates. While the conceptual difference is clear, applying this distinction in practice would undoubtedly be difficult. One way of considering it would be to say that, for the purposes of such a discussion, that the current service levels are based on 'need' and that further expansions should be undertaken only on a commercial basis (NB: this is not the same as saying they should only be supplied by a private operator). There appears to be no reason why both CalMac and North-Link could not be allowed to develop the services they provide based on a route-by-route analysis. Certainly there appears to be no principled reason why they should be arbitrarily prevented from providing services which they feel would be both popular and commercially viable. In an interview with a senior manager in Northlink, it was made clear that there are a number of areas where improvements in service could be made which would meet those criteria.

Section 3 Employment impacts of ferry services

3.1 This aspect of the original remit became, in a sense, redundant as a result of the published report commissioned by Highlands and Island Enterprise²⁴ which carried out an analysis of the employment effects of ferry services on the communities served by them. Given the timescale of the current research it is unlikely that better estimates of these effects could be produced. However, a couple of aspects of the report should be highlighted:

- The estimates are based on data for all ferry operators (with estimates being used for Western Ferries and Pentland Ferries) therefore differences in the pay rates and the employment levels are hidden within industry averages. However, it is known that both pay rates and crewing/employment levels are higher in the public sector companies

²⁴ Direct Employment and Income Impacts of Ferry Services, Reference Economic Consultants, May 2010 can be accessed at <http://www.scotland.gov.uk/Resource/Doc/935/0099984.pdf>

and therefore those companies have a greater impact on the communities which they serve²⁵.

- Employment in the ferry sector clearly provides a higher level of income to employees than the average income for all the areas in which they are located – see Table 2.5 of the HIE report. This is taken to also reflect the higher number of full-time, permanent posts than in the labour market generally in Scotland.
- The income impacts are only the direct impacts (ie the wages and salaries received). There will also be second-round impacts: ie when ferry crews spend on local goods and services this supports employment outside the ferry industry. These second round impacts are likely to be large because most of the spending activities of ferry employees (particularly in the island communities) will be carried out in their own communities and won't 'leak' out to other areas thereby diminishing the local employment effect. In these circumstances, the direct impacts of ferry sector employment are likely to be a significant underestimate of the total impact of ferry sector employment.

Section 4 Quality and Safety

4.1 These issues, only touched on in the CD, are vital to any review of ferry services and any tendering process. They are being dealt with separately here because there is no specific question which relates to them in the CD itself.

4.2 Quality

In the run-up to the 2007 tender there were a number of discussions around the quality of service being provided by CalMac and there were indications from the ferry transport users committee of a number of areas of dissatisfaction. A 2008 investigation by the Transport, Infrastructure and Climate Change Committee of the Scottish Parliament indicated that the main area of dissatisfaction with CalMac related to timetabling. This is a matter over which CalMac does not have complete control for a number of reasons, not least of which is that the SG has to approve changes in timetabling and have, on occasion, refused to do so.

The Committee is aware that many island residents have already raised with Ca/Mac Ferries the question of timetable improvements on specific routes. In many cases the response from

²⁵ This author has had sight of a report carried out for Orkney Islands Council into pay, benefits and terms and conditions of ferry crews, which, while written to protect confidentiality, suggests that, given the operators who responded and their relative weight in terms of numbers of employees, that pay and conditions within CalMac and Northlink are superior to other operators. Figures from the RMT confirm this suggestion.

CalMac Ferries has been that the company would like to put on improved services but that major barriers exist which prevented this from happening, such as hours of working regulations or a shortage of vessels.

(TICC Committee, SG, 4¹ "Report"²⁶)

The same committee also heard evidence that while there were some areas of dissatisfaction to do with arrangements for connecting services (again not the sole responsibility of CalMac), there was also a large degree of appreciation of the professionalism and courtesy of the staff. They also heard evidence that the customer care, quality improvement and customer feedback mechanisms used by Northlink were of a high quality and that CalMac, although, by their own admission, still lagging behind in terms of changing attitudes, were taking steps to improve these aspects of their performance.

²⁷ CalMac now has 3 Shipping Service Advisory Committees which are designed to act as a means for channeling customer views. In addition, the practice is now for Regional Managers to meet with Community Councils to pick up on concerns re timetabling and other issues. There is evidence that CalMac has invested in quality via a number of routes including a comprehensive system of customer service training which has resulted in a huge reduction in the number of complaints received. The newly appointed Chief Executive, Archie Roberson has spoken of 'empowering' ferry users. Information provided for this report by the Records Manager of David MacBrayne Ltd show that over the past three years (since the current contract was put in place in October 2007) the number of complaints has been on average 0.022% of passengers travelling. In addition, he added that:

It should be noted that many of the concerns expressed by customers relate to single issues, for example, the decision to deploy the NorthLink vessel to transport travellers stuck in Scandinavia due to the volcanic ash, and the breakdown of the CalMac vessel mv Clansman.

The equivalent rate of complaints for Northlink is 0.04% since the contract began in July 2006. Details of the Customer Complaints procedures used by both CalMac and Northlink are contained in Appendix 4.

In terms of the quality standards required under the contract with SG, Northlink has in the last year only incurred one penalty for failing to provide

²⁶ Available at <http://www.scottish.parliament.uk/s3/committees/ticc/reports-08/trr08-04.htm>

²⁷ The information contained in this paragraph and para 4.3 was provided by the outgoing and current Chief Executive on 9 June 2010

services.²⁸ They provide a host of basic courses for all staff including Personal Safety and Social Responsibility, Elementary First Aid, and Diversity Training. They are currently introducing a new SG initiative in Customer Care (well ahead of most operators) for all of their staff, beginning with those in the Hotel Department. They use a mystery shopper (operated by an independent company) every month; they have customer feedback forms on boards on each ship and they also publicise the way that they have responded to such feedback.

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Safety

This is perhaps the most important aspect of any ferry operator's performance and the safety of the service is one of the main objectives set out by the SG in the CD (quoted here in Section 2.1). The safety record of both CalMac and Northlink are very good indeed²⁹ and this is in no small part due to the training provided by the public sector operators; to the quality and maintenance of the vessels, and to the levels of crewing which are also above the minimum required by the relevant regulation. Details of the manning levels of CalMac vessels are contained in Appendix 3. In order to put this into context the following explanation was provided by an experienced crew member:

The minimum manning is the minimum that you can sail the ship with. If you look at the isle of Lewis (JOL) the safe manning is 15, however when you are carrying passengers for example passenger certificate PC2 860 passengers you need a minimum of 24 crew, so the additional 9 would generally be catering department. Any staff over and above the 24 would be extra to provide the service, if the company reduced the catering service they could go down to the minimum 24 crew or if they put in a lower passenger certificate (PC3) 312 Pass then they could reduce the crew minimum accordingly i.e. 18, this has never been done...

As explained below, the catering crew are also trained in a number of passenger safety procedures and any reduction in overall crewing levels, even in terms of catering staff, would impact on the ability of the crew to deal with emergencies.

²⁸ A bar was closed due to a member of staff becoming sick very suddenly

²⁹ There were two incidents involving CalMac ships recently (June 09 and Feb 10) arising in one case from component failure, but no one was hurt in either incident.

CalMac

CalMac train mariners at all levels and are large enough to be able to broker arrangements with other companies in order to be able to get sufficient sea-time for trainees. Training is focused on safety, career progression and the needs of an ongoing business, despite the fact that they, like any other successful bidder, only hold the contract for 6 years at a time. They operate a policy of moving crew around the various routes in order to 'reduce complacency' which has been found to be the cause of an accident in 2004 when a ship hit a pier at Oban. A single route operator would, of course, not be in a position to do this. In addition, and again, as a result of the 2004 accident, they are promoting the idea of a bridge team to 'get away from autocratic masters'.

Northlink

Northlink is clearly extremely pro-active in training and development and has a very high safety culture³⁰. Details of the training requirements for each member of the crew for each vessel show that the least trained member of the crew (in terms of numbers of qualifications), usually the cook, has between 8 and 10 separate qualifications including Personal Survival Techniques, Fire Prevention and Fighting, Crowd Management, Safety Training and Crisis Management. Therefore, even those crew members whose job is largely involved with customer care are capable, in emergencies, of ensuring the safety of passengers, other crew members and themselves. Northlink also has a record of introducing any new regulations/safety procedures immediately and well in advance of any compulsory measures. Private operators, on the other hand, have an incentive to leave all new (and costly) measures until they are forced to introduce them by law. For example, the Standards of Training, Certification and Watch Keeping amendments of 1995 were phased in over 5 years. The public sector operators introduced them immediately while many in the private sector waited till the last minute and then asked for extensions. They are looking now at complying fully with the Maritime Labour Convention 2012 which, among other things, 'sets minimum requirements for seafarers to work on a ship'. They use an Occupational Health Company to offer 'lifestyle medicals' to staff and operate a zero tolerance policy in relation to drugs and alcohol. Northlink has also invested in training facilities so that important safety training can take place closer to where their crews are based, this has resulted in significant costs savings. They are able to do this because of the numbers of employees that they are training. Again this is an area, where even if an operator on a single route was minded to provide the highest quality training, in the shortest possible time, they would not be able to benefit from the economies of scale outlined above and therefore the cost would be greater for the public purse.

³⁰ See Appendix 2 for details of the Northlink training requirements for each member of the crew on each vessel.

In short, the focused approach, within the public sector, on high quality training, not only provides economic benefits and offers opportunities for good quality employment, higher wages and career progression for members of the relevant communities; it also is integral to the safety consciousness and excellent safety record of the public sector operators. Any tender process should ensure that bidders are considered on a like-for-like basis, and any failure to properly account for the features discussed above, may lead to overall losses, not just to the economy of some of the most fragile parts of the Scottish economy but also to the record of safe and reliable transport which the island communities currently enjoy.

Section 5 Conclusion

- The decision to tender ferry services in 2005 and to do so again in the near future is not regarded by all independent experts as being entirely necessary to comply with EU law, however, given the views of the Scottish Government, such a tender is likely to go ahead
- The costs associated with tendering are high
- The potential benefits from tendering in terms of costs savings are unlikely to be high
- The difficulties of ensuring investment in an ageing fleet are great but a solution is unlikely to be found via the tendering process
 - o Private operators are unlikely to have suitable vessels
 - o There are few suitable vessels available to be chartered
 - o Private operators are in no better position to charter than the public sector operators
 - o The safety issue, which is acknowledged to be paramount, could be compromised by the use of alternative vessels and the removal of responsibility for maintenance by CMAL
- Longer term solutions such as central procurement and development of commercially viable services (ie at market-based fares) to offset public subsidy could be investigated
- There is no evidence that the public sector ferry operators are not operating efficiently within the constraints placed on them by the Scottish Government
- Their quality standards are high and rising
- The safety record of the public sector companies are extremely high and incentives and opportunities for them to remain so are greater than that faced by the private sector operators
- The quality and safety standards are more easily maintained in the context of a large operator holding the contract for all the Clyde and Hebrides and Northern Isles routes
- There appears to be no argument for the suggested single tender routes other than to facilitate private operators

- Single route operators are unlikely to be able to offer the same degree of quality and safety training to employees at the same cost as they are unable to access economies of scale in this regard
- The impact of ferry operators is high and vital to the communities which they serve:
 - In terms of the direct and indirect income and employment effects
 - In terms of the impact on the island economies and their scope for development
- The public sector operators, relative to the private ferry operators offer good quality employment, higher wages and career progression for members of the relevant communities

Appendix 1

Interview Schedule

4 June 2010	Ian McIntyre, RMT Tom Kennedy, TSSA
9 June 2010	Laurie Sinclair, outgoing Chief Executive, David MacBrayne Ltd Archie Robertson, incoming Chief Executive, David MacBrayne Ltd (including follow-up email correspondence)
27 June 2010	David MacMillan, HR Services Manager (Northlink Crewing) David MacBrayne HR(UK) Ltd (including follow-up email correspondence)

Telephone Interviews

7 July 2010	Paul Moloney, Assistant General Secretary, Nautilus International
17 August 2010	Philip Preston, Managing Director, CalMac Ferries Ltd

Appendix 2

Northlink Qualifications Chcklist - to be supplied in hard copy

Appendix 3

MCA Merchant Shipping Notice 1767 M Hours of Work, Safe Manning and Watch Keeping, 1 September 2002 – to be supplied in hard copy

Manning Levels for CalMac Vessels – to be supplied in hard copy

Appendix 4

Customer Complaints Procedures

CalMac

All customer comments and correspondence received by CalMac Ferries are recorded in the Respond database. Formal concerns are acknowledged within 5 working days of receipt and replied to within 21 working days of the date of acknowledgement. If it is not possible to reply to the concern within the 21 days, a holding letter will be sent advising of the reason for the delay and a likely timescale for a reply.

CalMac Ferries distributes Customer Feedback Forms and customers are encouraged to complete one of these. Website Customer Feedback Forms are also available and both are recorded in Respond, and depending on the nature of the comments a reply may be sent. Of those who have completed a Customer Feedback Form, on average around 90% would recommend the Company to others.

Northlink

All customer concerns are acknowledged on receipt and a substantive response is provided within 2 weeks of receipt of the concern.

All passengers are encouraged to complete and submit a Customer Satisfaction Questionnaire and the comments are reviewed by at least one senior manager. All the Questionnaires are scanned and the results collated so positive and negative trends can be identified.

NorthLink also engage specialists every few years, to undertake a statistically significant sampling of Orkney & Shetland residents and visitors to establish their views on the services provided and any specific aspects. One of the aims of this is to establish the factors the islanders use to decide whether to travel and if so, whether to travel with NorthLink. The results are compared to the previous study to identify how the Company are fairing relative to competitor service providers.

Both Companies utilise a 'Mystery Shopper' company to report regularly on the customer experience and the results are analysed. Any adverse reports are investigated and acted on, where possible.