PURPOSE OF REPORT
To provide the Comhairle with an update on matters associated with the procurement and delivery of ferry services within and to the Western Isles.

COMPETENCE
1.1 There are no legal, financial, equalities or other constraints to the recommendations being implemented.

SUMMARY
2.1 The procurement of the Clyde and Hebrides Ferry Services continues with Transport Scotland in dialogue with the two participants, CalMac Ferries Ltd and Serco Caledonian Ltd, as part of the “competitive procedure with negotiations”. The invitation to submit Interim Tenders was issued on 2 November 2015 and the process is still on track for the issue of the Final Invitation to tender in December 2015, the submission of Final tenders in February 2016 and the award of the contract in May 2016.

2.2 The Independent Procurement Review Panel, established by the Minister for Transport and islands to ensure the procurement of the CHFS contract is “fair, open and transparent”, continues to review and provide comment on both the Interim ITT and Final ITT documents. Two such meetings of the have been held and a further two are scheduled for November and December 2015. A copy of the Transport Scotland News Release of 3 November 2015 is included as Appendix 1 to the Report.

2.3 A number of developments of and enhancements and to routes to and within the Western Isles have been announced in the last three months. Significantly, the Minister recently announced the provision of a daily direct return service between Oban-Barra utilising the MV Isle of Lewis, delivering a considerable increase in capacity, and a daily direct return service between Lochboisdale-Mallaig utilising the MV Lord of the Isles. A copy of the Transport Scotland News Release of 22 September 2015 is included as Appendix 2 to the Report.

2.4 Transport Scotland published its Vessel Replacement and Deployment Plan on 2 October 2015. The VRDP presents a programme of vessel, retentions, cascades, acquisitions and disposals enabling the implementation of the Ferries Plan and considers historical and projected customer demand and the on-going provision of capacity to satisfy that demand. A copy of the associated News Release and a summary of the main elements of the VRDP are included as Appendix 3 and Appendix 4 respectively.

2.5 The introduction of the Road Equivalent Tariff (RET) fare support mechanism was implemented on the Sound of Harris and Sound of Barra crossings with effect from 26 October 2015.

RECOMMENDATION
3.1 It is recommended that the Comhairle note the Report.

Contact Officer: Iain Mackinnon, Director of Technical Services
Background Papers: None
Appendices:
1 Transport Scotland News Release 3 November 2015
2 Transport Scotland News Release 22 September 2015
3 Transport Scotland News Release 2 October 2015
4 Transport Scotland Vessel Replacement and Deployment Plan 2014 - Summary
5 Transport Scotland News Release 16 October 2015
CLYDE AND HEBRIDES FERRY SERVICES PROCUREMENT

4.1 As has been previously reported, the Scottish Government is currently undertaking a procurement process to enable the appointment of an operator to undertake the Clyde and Hebrides Ferry Services from 1 October 2016 for a period of up to eight years.

4.2 The procurement processes is being managed on behalf of Scottish Ministers by Transport Scotland and all relevant information and tender documentation is available for review from the Transport Scotland and Public Contracts Scotland websites using the following links:

Transport Scotland: http://www.transportscotland.gov.uk/ferries/clyde-and-hebrides


4.3 At the time of writing, as part of the process described in previous Reports to the Comhairle, each Participant has submitted their Initial Tender and undertaken negotiation with Transport Scotland. At the time of writing, the invitations to submit Interim Tenders have been issued on Monday 2 November 2015 and the process is still on track for the issue of the Final Invitation to Tender in December 2015 and the submission of Final Tenders in February 2016.

4.4 In parallel with the procurement process, the Independent Procurement Review Panel continues to have an over-arching view and appraisal of the process to “ensure the procurement of the next CHFS contract is fair, open and transparent”. Meetings of the Panel, which includes participation of the Comhairle through the Leader, the Chair of the Transportation and Infrastructure Committee and the Director of Technical Services, have been held on 11 September and 8 October 2015 and the remaining two meetings are scheduled for 13 November and 7 December 2015.

4.5 A copy of the Transport Scotland News Release of 3 November 2015 is included as Appendix 1 to the Report.

4.6 Engagement and consultation by the Participants with key stakeholders and local and wider communities are being undertaken. CalMac Ferries Ltd undertook a network-wide engagement exercise in May and June 2015 and representatives from the Bid Team met with the Hebrides Ferry Users Group on 28 October 2015. Representatives from Serco Caledonian Ltd met with Elected Members on 20 August 2015 and, at the time of writing, are planning a series of engagement meetings to meet with communities and the general public in Lewis, Harris, North Uist, South Uist and Barra in w/c 30 November 2015.

ROUTE DEVELOPMENTS

5.1 An announcement by the Minister for Transport and Islands on 22 September 2015 confirmed a number of major developments on routes within the CHFS network. A copy of the associated News Release is included as Appendix 2 to the Report with the main headlines for the Western Isles being:

- the provision of a daily direct return service between Oban-Barra with a dedicated vessel, delivering a considerable increase in capacity, and

- a daily direct return service between Lochboisdale-Mallaig using a dedicated vessel.

5.2 It was subsequently confirmed that the MV Isle of Lewis is to be allocated on the Oban-Castlebay route and the MV Lord of the Isles on the Mallaig-Lochboisdale route, both from summer 2016.
5.3 A further announcement by the Minister for Transport and Islands on 2 October 2015 accompanied the publication of Transport Scotland’s Vessel Replacement and Deployment Plan. A copy of the associated News Release of that date is included as Appendix 3 to the Report and the Report Summary is included as Appendix 4 to the Report.

5.4 A copy of the full Report is available on request from the Director of Technical Services and by using the link:


5.5 The primary objective of the Plan and its associated research, which are to complement the Scottish Ferries Plan 2013-2022, is to enable Transport Scotland, in collaboration with CMAL and CalMac, to develop a programme of vessel retentions, cascades, acquisitions and disposals. The published Report summarises the outputs from the VRDP project up to the end of 2014; research has been undertaken, and will continue to be undertaken, to enable a review of the Plan on an annual basis and it is anticipated that the next version of the Report, presenting the results for 2015, will be published in the first quarter of 2016.

5.6 The contract between Caledonian Maritime Assets Ltd (CMAL) and Ferguson Marine Engineering Ltd (FMEL) to build two 100m “dual-fuel” ferries, worth £97m, was concluded on 16 October 2015. A copy of the Transport Scotland News Release of 16 October 2015 is included as Appendix 5 to the Report.

5.7 The introduction of the Road Equivalent Tariff (RET) fare support mechanism was implemented on the Sound of Harris and Sound of Barra crossings with effect from 26 October 2015. By way of an example, this will reduce the costs of a return ticket for a car and passenger on the Sound of Harris route from £72.75 to £33.20 and on the Sound of Barra route from £49.65 to £26.40.
**Ferry tender is “fair, open and transparent”**

The first report from the Independent Procurement Reference Panel concludes that the first stage of the tender process for the contract to operate the Clyde and Hebrides Ferry Services (CHFS) was fair, open and transparent.

The Panel was set up to provide assurance that nothing is being done in the procurement that could be perceived as discriminating against either of the bidders.

Both the report and the Interim Invitation To Tender (ITT) are available to view on the Transport Scotland website.

This Interim ITT document, which supersedes the Initial ITT issued in August, has been issued to both CalMac Ferries Ltd and Serco Caledonian Ferries Limited.

Minister for Transport and Islands Derek Mackay said:

“From the outset, we have pledged to make this a fair, open and transparent procurement process. The publication of both the first report from the Independent Procurement Reference Panel and the Interim ITT underlines that commitment.

“The first report from the Panel concluded that the terms of the Initial ITT process were fair, open and transparent to both bidders. The Panel has held two meetings which have proved very useful, and further meetings are scheduled to take place to review and provide comment on both the Interim ITT and Final ITT documents.

“The Interim ITT, and beyond that the Final ITT, have a slightly revised timeline, which will ensure both CalMac Ferries Ltd and Serco Caledonian Ferries Ltd are provided with all the information they require to compile their respective submissions. However, this will have no impact on the final award of the contract, which remains on schedule for the end of May 2016. The revised timetable is a consequence of the detailed and extensive consultation undertaken to date.

“I once again underline that, no matter the outcome of the procurement process, Scottish Ministers will retain control of all of important issues, such as fares and timetables, through the public service contract. Vessels and port infrastructure will also remain publicly owned as they are now. We remain focused on ensuring a fair and open competition that leads to getting the very best deal for all of the communities of the Clyde and Hebrides.

“As Minister for Transport and Islands, I’m well aware the crucial role our ferry network plays for the communities of the Clyde and Hebrides. The Scottish Government is committed to providing the best possible service and the recent announcements of a total freeze on ferry fares for 2016/17 and our investment in two new 100m vessels for the CHFS network show that we are focussed on delivering for those communities.”

Both documents can be viewed at [http://www.transportscotland.gov.uk/ferries/clyde-and-hebrides](http://www.transportscotland.gov.uk/ferries/clyde-and-hebrides)
Enhanced timetable for West Coast ferries

Improved services proposed for next summer

An enhanced timetable is being proposed for the Clyde and Hebrides Ferry Services (CHFS) network from next summer, Minister for Transport and Islands Derek Mackay has announced.

The planned improvements follow engagement with communities across the CHFS network, and will help deliver commitments made in Scottish Ferry Services: Ferries Plan (2013-2022).

Mr Mackay said:

“As Minister for Transport and Islands, I know how important our ferry services are to the communities of the Clyde and Hebrides and the vital role they play in enabling continued and sustainable economic growth for the Islands.

“Since taking up my post I have spoken to stakeholders throughout the network, from councils to ferry users groups, to see if changes can be made to ensure our ferry services continue to deliver the best possible service.

“This enhanced timetable offers a number of improvements: proposals include increasing capacity on certain services, offering more sailings and reorganising vessel deployment to get the most from our ferry fleet.

“It will also help manage the expected increase demand from the full roll out of Road Equivalent Tariff (RET), which gives island residents and visitors access to significantly reduced fares.

“We have also placed an order for two new major vessels and their delivery in 2018 will represent further enhancements to West Coast ferry services

“These measures underline the Scottish Government’s commitment to essential ferry services for the communities that rely on them and will ensure that our islands remain attractive and accessible to visitors.”

CalMac will now undertake a consultation process with communities across the network, with a view to bringing these enhancements in as part of next summer’s timetable.

Among the proposed enhancements are:

- A daily direct return service between Oban-Barra with a dedicated vessel, delivering a considerable increase in capacity.
- A daily direct return service between Lochboisdale-Mallaig using a dedicated vessel.
- An additional 50 weekly sailings on the Oban-Craignure route, with additional vessels supplementing the MV Isle of Mull. This means Oban will become a commutable destination from Mull for the first time.
- 10% more sailings on the Mallaig-Armadale route.
- Over 30% increase in capacity on services to Coll, Tiree and Colonsay.

CalMac’s, director of operations, Drew Collier said:

“Listening to our customers is central to the service we provide. This enhanced timetable answers many of the questions we have been getting asked about how we could better tailor our services to suit the needs of the communities we serve."
“The two vessel service on the Oban-Craignure route, serving Mull, will balance off the additional capacity issues we would expect due to Road Equivalent Tariff fares being introduced on this service.

“While we are significantly improving connectivity to the Outer Hebrides for both tourists and residents.

“It has been arrived at by listening closely to our customers and I look forward to hearing their views at forthcoming consultations.”
Plan for West Coast ferry fleet

Vessel replacement and deployment plans are published

Plans, outlining the future make-up of the ferry fleet serving the Clyde and Hebrides network, have been published.

The Vessel Replacement and Deployment Plan (VRDP) gives an overview how existing vessels could be moved throughout the network to deliver the Government’s Ferries Plan commitments and better meet demand, looking at the procurement of new ships to eventually replace some of the older vessels in the fleet.

Minister for Transport and Islands Derek Mackay said:

“Ferry services play a crucial role for the communities of the Clyde and Hebrides, so we want to progressively renew and improve the fleet operating on these routes.

“This plan, agreed between the Scottish Government, CalMac Ferries Ltd and Caledonian Maritime Assets Ltd, outlines the measures we aim to take collectively to meet increasing demands on these lifeline services, as well as looking at how and when to introduce new vessels in place of some of the older ones.

“It also looks at how we will manage increasing demand from the introduction of Road Equivalent Tariff (RET) across the network, which gives island residents and visitors access to significantly reduced fares.

“While many of these measures will be implemented over the longer term as funding becomes available, we have already started putting this plan into action with the commissioning by CMAL of the two new 100m vessels that are destined initially for the Ardrossan-Brodick and Uig Triangle routes.

“The Scottish Government is committed to supporting our island communities and this plan will help our aim of enabling continued and sustainable economic growth throughout the Clyde and Hebrides.”

Transport Scotland published Scottish Ferry Services: Ferries Plan (2013-2022) in December 2012 as a basis for the shape of all of Scotland’s ferry services until 2022 and it underpins the development of the VRDP as it applies to the Clyde and Hebrides Ferry Services network. The VRDP is intended to complement the Ferries Plan by also considering historical and projected customer demand and the ongoing provision of capacity to meet that demand.

Tom Docherty, Chief Executive of CMAL, said:

“We work closely with our colleagues at Transport Scotland and CalMac Ferries Ltd to plan, design and build ferries that reflect the demands of island communities and recognise the unique geographies of the ports and harbours on the west coast of Scotland.

“This will make sure that our fleet now and in the future is as versatile as possible in the way vessels can be deployed and cascaded round the network.”

Martin Dorchester, managing director of CalMac Ferries Ltd, said:

“In helping to identify the type and capacity of vessels that best suit the needs of our customers, we are able to assist our partners in building a future fleet that is fit for purpose.

“We are the frontline face of ferries on the West Coast, with knowledge built up over 160 years we can, with confidence, know what the real needs of the communities we serve are.”
In December 2012, Transport Scotland published *Scottish Ferry Services: Ferries Plan (2013-2022)*. The Ferries Plan provides a basis for the shape of all of Scotland's subsidised ferry services until 2022 (and beyond as vessels have a 30 year design life) and underpins the development of this Vessel Replacement and Deployment Plan as it applies to the Clyde and Hebrides Ferry Services (CHFS) network.

CalMac Ferries Ltd (CFL) operate a fleet of 10 major vessels and 21 non-major vessels in the delivery of the CHFS passenger and vehicle services. These vessels are chartered from Caledonian Maritime Assets Ltd (CMAL) by CFL and serve 49 ports across the west coast of Scotland with facilities ranging from unmanned slipways to ports with multiple linkspan berths. It is for the CHFS operator to decide how fleet vessels are deployed, whilst ensuring the delivery of the Ferries Plan.

Transport Scotland has been working with CMAL and CFL to develop a programme of vessel retentions, cascades, acquisitions and disposals in order that the delivery of the Ferries Plan could be fulfilled in the timescales set out by the Scottish Government. The Ferries Plan included an outline proposed Vessel Replacement Programme as well as a proposed programme of Port and Harbour Works.

The published *Vessel Replacement and Deployment Plan – Annual Report 2014 (VDRP)* summarises the outputs from the Project up to the end of 2014.

The Routes and Services Proposals contained in the Ferries Plan focus primarily on the number of sailing days, frequency of service and length of operating day. The Vessel Replacement and Deployment Plan (VRDP) is intended to complement the Ferries Plan by also considering historical and projected customer demand and the on-going provision of capacity to meet that demand. Of particular interest was the consideration of increased demand due to lower fares as a consequence of the phased introduction of Road Equivalent Tariff (RET).

Estimates of demand for each of the communities served by CFL were prepared by independent consultants. Traffic types included were passengers, cars, coaches and commercial vehicles and covered the period 2014 to 2039. The base carryings year was 2013 and this was for satisfied demand only. (At this time, no quantitative analysis exists for true levels of unsatisfied demand; however we are exploring options for how this may be gathered in the future.)

These demand estimates were fed into a model designed for this exercise. This enabled calculations of the percentage utilisation of actual and forecast passenger capacity and vehicle deck capacity. This ensures that all routes are analysed on a consistent basis.

To satisfy the requirements of the Ferries Plan and meet forecast demand, significant investment in port infrastructure would be required to support the deployment of vessels required for the long-term. The long timescales associated with major infrastructure works and the shorter term imperatives to address vessel capacity issues and an ageing fleet give rise to a need to identify an amended shorter-term program of investments focused initially on new vessels. This program should not prevent the future delivery of the full demand-led Plan as detailed in the VRDP, subject to funding availability, and allows the fleet replacement programme to continue whilst longer-term decisions are made.

It was therefore agreed to proceed with the procurement of 2 new vessels, which would initially be operated on the Uig Triangle and Ardrossan-Brodick routes. This solution would bring additional capacity in response to current demand pressures, be designed to use existing berths without significant redevelopment, and contribute to the delivery of the Ferries Plan and improve reliability and passenger experience. This approach also delivers part of the longer term VRDP recommendations. The procurement of the 2 new vessels was announced by the then Transport Minister Keith Brown MSP on 15 October 2014.
The other recommendations of the VRDP report for 2014 were as follows:

- Work with the various harbour owners to identify any infrastructure modifications associated with the delivery of the 2 new vessels;
- In the longer term, one of these vessels would be redeployed to services to Islay, subject to the deployment of suitable tonnage in its place and modifications to the Islay route ports to accommodate a vessel of this size;
- Once a new vessel is delivered for Uig Triangle services, re-deploy MV Hebrides to Oban based services to provide additional capacity and operational resilience on the routes operating in and out of Oban;
- Consider the disposal of MV Isle of Arran or MV Isle of Mull once a new vessel is delivered for Arran services.
- Work with the harbour owners on the Uig-Tarbert-Lochmaddy and Ardrossan-Brodick routes to identify the infrastructure requirements associated with the delivery of potential future vessels of a size larger than the 100m vessels under procurement (e.g. MV Loch Seaforth capacity vessels);
- Alongside this, consider on the basis of an analysis of capital and operating costs and forecast traffic levels alternative options involving additional vessel deployment;

The VRDP also set out the intention of deploying the MV Isle of Lewis on the Oban-Craignure route. Further work has been undertaken in partnership with Argyll and Bute Council which has concluded that this is looking less achievable in the short-term. However, CFL have developed fleet deployment proposals for Summer 2016 in order to respond to the Ferries Plan commitment to provide an additional vessel on the route - addressing the forecast increase in demand on the route as a result of the introduction of RET.

The VRDP foresees a further 4 new major vessels procured in the period to 2025, subject to funding availability. This would:

- introduce new vessels serving Islay, Mull, Arran, the Western Isles and other communities;
- enable the achievement of the Ferries Plan;
- respond to forecast demand; and
- reduce the average age of the fleet.

The VRDP will be reviewed annually. The analytical work for the 2015 exercise is underway and the next report should be available in the first half of 2016. It is the intention of Transport Scotland, CFL and CMAL that the work in developing the VRDP will be taken forward as an inclusive process involving key stakeholders such as the relevant local authorities, regional transport partnerships and economic agencies.
New ferries contract signed

Following the announcement that Ferguson Marine Engineering Ltd (FMEL), Port Glasgow, had been named as the preferred tenderer for the contract to build two 100m ‘dual-fuel’ ferries, Caledonian Maritime Assets Limited (CMAL) and the shipyard have today (Friday 16th October 2015) signed the shipbuilding contract, worth £97 million.

FMEL will undertake the detailed design and construction work of the new vessels in Scotland, as well as their testing, equipping, launching and delivery. The first ferry is expected to enter service in early 2018, with the second vessel following a few months later.

The contract will provide a boost for commercial shipbuilding on the Clyde and follows the shipyard’s delivery of the first two hybrid ferries for the CMAL fleet, with the third due to launch in December this year. It will not only secure around 150 existing jobs in the Port Glasgow and Inverclyde area, but create new jobs and aid the local economy.

The ships are designed to carry 127 cars or 16 HGVs or a combination of both and up to 1,000 passengers. The ships will be capable of operating across a range of drafts and speeds to meet the requirements of the current operator, CalMac Ferries Ltd, to service a wide range of ports and routes. The new ferries are earmarked for the Ardrossan-Brodick and the Uig Triangle routes, although the final decision on vessel deployment rests with CalMac Ferries Ltd and will be informed by further analysis of demand on all major routes.

The ferries will be ‘dual-fuel’ vessels so they can operate on liquefied natural gas (LNG) and marine diesel. LNG is significantly cleaner and has been adopted by ferry operators in Northern Europe in response to tighter emissions regulations.

Minister for Transport and Islands Derek Mackay said: “I’m delighted this contract has been formally awarded to Ferguson Marine Engineering Limited and the shipyard can now start work on these new 100m ferries, the largest commercial vessels to be built on the Clyde since 2001.

“The award of this contract will see FMEL’s 150-strong workforce retained and more staff taken on, underlining the Scottish Government’s commitment to creating the vital jobs needed to boost local economies and help stimulate growth across Scotland.

“I once again congratulate FMEL on proving Scottish shipbuilding can succeed in a competitive market, and I look forward to seeing these new vessels join the West Coast ferry fleet in the future.”

Tom Docherty, Chief Executive, CMAL commented: “We are delighted to sign the shipbuilding contracts, securing FMEL as the contractor to build the two newest additions to our fleet. Key items of equipment will now be ordered, detailed plans will be developed for approval and it is anticipated that actual construction will start early in 2016. We hope to see the first of these vessels in operation in early 2018.”

Liam Campbell, Managing Director, FMEL added: “This is a great achievement for the yard and great news for the local community. The signing of the shipbuilding contracts today marks the beginning of a new era of commercial shipbuilding on the Clyde and in conjunction with our experience in building battery hybrid vessels, confirms Ferguson Marine Engineering as a lead designer and builder of innovative green vessels internationally.”