



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 23 November 2017

Session 5



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PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
28th Meeting 2017, Session 5

CONVENER

*Jackie Baillie (Dumbarton) (Lab) (Acting Convener)
Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Bill Bowman (North East Scotland) (Con)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Monica Lennon (Central Scotland) (Lab)
*Alex Neil (Airdrie and Shotts) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Graeme Greenhill (Audit Scotland)
Fraser McKinlay (Audit Scotland)
Tavish Scott (Shetland Islands) (LD)

CLERK TO THE COMMITTEE

Terry Shevlin

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 23 November 2017

[The Acting Convener opened the meeting at 09:01]

Decision on Taking Business in Private

The Acting Convener (Jackie Baillie): Good morning and welcome to the 28th meeting in 2017 of the Public Audit and Post-legislative Scrutiny Committee. I ask everybody in the public gallery to switch off their electronic devices or at least switch them to silent, so that they do not interfere with the work of the committee. I welcome Tavish Scott MSP, who is joining us for this morning's meeting.

Item 1 is a decision on whether to take item 3 in private. Do we agree to take that item in private?

Members *indicated agreement.*

“Transport Scotland’s ferry services”

09:02

The Acting Convener: Under item 2 we will take evidence on the Auditor General’s report, “Transport Scotland’s ferry services”. I welcome from Audit Scotland Fraser McKinlay, director of performance, audit and best value, and Graeme Greenhill, senior manager. I invite Fraser McKinlay to make an opening statement.

Fraser McKinlay (Audit Scotland): Thank you, convener. Good morning, members. I am delighted to bring you the Auditor General’s report, which reviews Transport Scotland’s subsidised ferry services. I will summarise the findings under three headings: first, our assessment of Transport Scotland’s spending on ferries, including what that has achieved; secondly, our observations on long-term planning; and, finally, the recent procurement of the Clyde and Hebrides ferry service, which is one of Transport Scotland’s largest operating contracts.

We absolutely recognise that ferries are an essential part of Scotland’s transport network, providing lifeline services for many island communities across Scotland. The team visited 10 such communities in the course of the audit, and we recognise the importance of the services to communities on the islands and, indeed, on the mainland. It is in that context that we looked at spending and performance.

As the report points out, spending has increased. Transport Scotland’s spending on ferry services and assets has more than doubled in the past nine years to more than £209 million in 2016-17. That is mainly down to a 185 per cent increase in spending on the Clyde and Hebrides contract, primarily due to an increase in the number of services, the introduction of new boats and the impact of the road equivalent tariff, which has significantly reduced the cost of ferry travel for communities and tourists.

Despite the overall increase in ferry spending, Transport Scotland does not routinely measure the contribution that ferry services make to social and economic outcomes. In the context of tightening public sector budgets, and given the vital nature of the services, we recommend in the report that Transport Scotland considers ways to measure the impact of ferry services, which should help it to demonstrate whether its spending represents value for money.

Overall, it is important to stress that we found that Transport Scotland’s ferry operators are performing well: 99 per cent of services run on

time and communities who use the services are generally happy. However, despite numerous forums being in place for Transport Scotland and others to communicate with ferry users, it was clear from our visits to those communities that many people do not understand how ferries operate in Scotland. On that point, we recommend that Transport Scotland, along with the relevant partners, better communicates the various roles and responsibilities.

I turn to our points about long-term planning for ferry services and assets. Transport Scotland has made significant progress in delivering its current 10-year ferries plan, which runs up until 2022. Although that is a good achievement, the plan focuses primarily on the Clyde and Hebrides network. There are many additional planned developments for ferries across the rest of Scotland, but the full cost of the developments is unclear, as is the full cost of harbour improvements that are likely to be required in the future.

We have recommended that Transport Scotland develop a new long-term strategy for its Scotland-wide network of subsidised ferries. It should take into account the significant progress against the current ferries plan, plus the future planned developments. The new strategy should help it to determine and, importantly, prioritise future investment in services and assets.

Finally, I turn to procurement. The new Clyde and Hebrides ferry services contract started on time in October 2016. We identified some weaknesses in how Transport Scotland managed the procurement project, which included delays in appointing some important staff, preparing business cases and providing bidders with information. Bidders were not always clear what was expected of them and they submitted more than 800 queries during the process. We make a number of recommendations to help Transport Scotland improve its approach to ferry procurement and contract management, including ensuring that it has the right people with the right expertise in place. We expect Transport Scotland to pick those lessons up as part of the on-going review of procurement policy for ferries.

As always, Graeme Greenhill and I are very happy to answer any questions. If there are any that we struggle to answer today, we will, of course, write back to you just as soon as we can.

The Acting Convener: Thank you very much, Mr McKinlay. I will kick off the questioning. You talked about a Scotland-wide network of subsidised ferries. I am sure that you will be aware that Strathclyde Partnership for Transport runs one ferry service—Kilcreggan to Gourock—which the Scottish Government has agreed in principle to take over. Do you see anything that would prevent

that from happening? Would there be synergies as a result of doing that, because the service would fit within a wider ferry network?

Fraser McKinlay: For this report we did not specifically look at that route or some of the routes that are provided by councils or private sector providers, because we were focusing on Transport Scotland ones. We are aware of the issues with the Gourock to Kilcreggan ferry, and it absolutely makes sense that there are on-going discussions on whether SPT continuing to provide that service is the best way forward. I would imagine that the Government will want to look at that specific issue in the context of the current procurement review.

It is a good example of why we think that the Government and Transport Scotland need to consider having a longer-term ferries plan that looks at all ferry services rather than just a bit of the network. It does seem that if some potential historical anomalies have grown up over time, that would be an opportunity to look at them.

The Acting Convener: That is very helpful.

I will move us on to value for money. It is quite astonishing that the amount of investment in ferries has increased by something like 115 per cent in real terms—there are many Government departments that would bite off your hand for that kind of increase—yet passenger numbers have increased by only 0.3 per cent. Why is there that disparity and should we be seeing more passenger numbers? What is the level of subsidy that is given to ferry passengers?

Fraser McKinlay: The conclusion we make on value for money is towards the end of the report, in part 4. We concluded that it is difficult to determine whether Transport Scotland's spending on ferries is value for money. That is not to say that the additional investment has not delivered stuff; it absolutely has. There are new services, there is the road equivalent tariff, there are new boats and there have been upgrades to harbours, so you can see tangible things on which the money has been spent.

You mentioned the example of passenger numbers. Our challenge is to look at how the investment in those tangible things delivers improvements—in terms of the economy and economic growth, and other social outcomes—to the communities they are serving. That is the bit that we think is missing in the assessment and reporting. At the end of our report, in paragraph 122, we mention that Transport Scotland is beginning to develop a policy assessment framework, which is designed to do look at those things, and we would absolutely encourage a degree of urgency on that.

As you say, it is unusual for us to do audit work on, and for this committee to look at, public

services that have experienced such a level of increased investment, when the story in lots of other places is about contraction. For that reason, it is really important that we redouble our efforts to demonstrate value for money for that spend.

The Acting Convener: Are you able to provide a per passenger cost?

Graeme Greenhill (Audit Scotland): We have not done so, but I can certainly have a look at that. It should in theory be possible, I would think.

I will give a little bit of flavour to the numbers. Most of the 115 per cent increase in spend that you spoke about relates to the Clyde and Hebrides ferry services, where the level of subsidy increased by something like 185 per cent over the 10 years to 2016-17. That is largely accounted for through increases in services, and the introduction of new vessels and the road equivalent tariff.

Overall, if you look at 2016-17 in isolation, you see that of the £210 million that Transport Scotland spent on ferry services, 63 per cent went on subsidies to the Clyde and Hebrides ferry service, 16 per cent went on subsidies to the northern isles ferry services, 1 per cent went on the Gourock to Dunoon service, 13 per cent went on loans to Caledonian Maritime Assets Ltd to procure new vessels, and 7 per cent went on grants for harbour improvement works.

The Acting Convener: That kind of breakdown is helpful to understand, but I am interested in being able to compare different forms of public transport. Somebody told me that the per head passenger subsidy for bus services is 30p, and clearly what we are seeing with ferries—although they are a different form of transport from buses—is substantially greater. It would be useful to have the ability to compare.

Graeme Greenhill: We can certainly do it for the likes of Clyde and Hebrides as a whole. Whether or not we could do it on a route by route basis I will need to go back and check.

The Acting Convener: That would be very helpful information.

Alex Neil (Airdrie and Shotts) (SNP): If we want make comparisons, it would be useful to get the per passenger mile figure as well as the per passenger figure.

The Acting Convener: It would be good if that could be provided.

Liam Kerr (North East Scotland) (Con): I want to pick up on that point. Graeme Greenhill said that the CalMac subsidy has gone up by 185 per cent over the past 10 years. My understanding is that passenger numbers have increased by 0.3 per cent. If that is correct, that is an awful lot of

money going towards not a great deal of equivalent in terms of passengers.

I have a subsidiary concern. I think that I am right in saying that after the introduction of the RET, car numbers increased by 16.8 per cent. Is any assessment being done of the impact of the extra traffic, as opposed to the extra passengers, on island communities and the cost to local authorities of that extra traffic with regard to the roads infrastructure?

Fraser McKinlay: I will ask Graeme Greenhill to come in on the second half of your question, about the valuation work that is being done in some places. Your point is, I guess, our central point about demonstrating value for money. As I said, you can see things that have been bought and paid for by the additional investment, but there has been only a 0.3 per cent increase in passenger numbers, and it seems to me that it is passengers, not cars, that will be spending money on islands. It is interesting that the pattern that we have seen is a significant increase in cars, motorhomes and so on. Some evaluation work has been done, but we do not have a strong enough sense across the piece of what the actual impact has been on growth, for example.

There was a lot of coverage in the newspapers this summer about the impact on some communities of things such as increased traffic. That is a little bit anecdotal, maybe, but it is a potential consequence of the RET that we would encourage Transport Scotland to look at. We know that it is looking at that in the context of the northern isles, where it is going to be reducing fares from 2018 onwards.

Does Graeme Greenhill want to say anything about the valuation?

09:15

Graeme Greenhill: Before I do that, I will clarify something for Liam Kerr. You are correct in saying that there has been a 0.3 per cent increase in passenger numbers over the past 10 or so years, but that is a Scotland-wide increase. If you look at the Clyde and Hebrides in isolation, you see that the number of passengers on those routes has increased by something like 7 per cent since 2006-07. As you said, there has been a 16 per cent increase in car numbers as well.

As Fraser McKinlay said in his introductory remarks, as part of the audit we visited 10 island communities and spoke to various representatives to get their views of the ferry services. We spoke to the Clyde and Hebrides people about the introduction of the road equivalent tariff. Some positive comments were made, but, equally, some of the comments coming back from the island communities were on the issues that Liam Kerr

raised. In many ways, the islanders welcomed the increased traffic and the increased visitor numbers to their islands, but there were negative consequences as well. For example, it was difficult sometimes to get on a ferry because they were full at peak times. People also spoke about the impact on traffic congestion and road condition.

As far as I am aware, no work has been done to evaluate the precise impact of those things. The RET was introduced initially on a pilot basis on a number of routes. It has subsequently been rolled out; 2016 was the first year in which the RET was available on all the Clyde and Hebrides routes. It is a little too early for an overall examination of the benefits that have accrued as a result of introducing the RET, but that is certainly something that we would be looking for Transport Scotland to carry out.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to touch on several issues. The report is like quite a few other reports that we have seen in recent times—it says that things are okay at the moment but that there will be pressures in future. The report mentions the pension scheme. Is that scheme still open?

Graeme Greenhill: Yes.

Colin Beattie: I found it quite eye-watering that, in 2016, the employer's pension contribution rate went to 30.8 per cent. Has any other area of the public sector gone to that level of contribution?

Fraser McKinlay: I would not like to give you a categorical answer, but it seems unusual. I do not think that you find that in many places.

Colin Beattie: I find it extraordinary. We have looked at pensions in various areas of the public sector and found a consistent problem with pension fund deficits, but we have just shrugged our shoulders and accepted that that is the way it is and hoped that it will sort itself out in future. In this case, there seems to be a focused plan to eliminate the deficit by increasing contributions way above those in the rest of the public sector. Has there been any justification for that, other than the simple fact of closing the gap? Why should this scheme be out of step with the rest?

Fraser McKinlay: I am not sure that we can answer that specific question, because it is outwith our remit to comment on the rights or wrongs of a particular pension scheme. The reason why we talk about it in the report is that it is absolutely one of the cost pressures that the service faces. It is not for us to suggest what should be done about that, but we absolutely recognise that it is a significant part of the cost pressures that the funding for ferry services will face in future based on current plans.

Perhaps Graeme Greenhill wants to add to that.

Graeme Greenhill: Ultimately, the percentage contribution is informed by the value of the assets in the pension fund and the estimated liabilities of the pension fund. The increase in contribution rates was introduced as a result of the scheme administrator's recommendations. Clearly, if the investment returns from the assets improve, the scheme deficit is likely to reduce over time. If that does not happen, as the report says, we think that Transport Scotland will have to look at the pension scheme to see what other options might be available.

Colin Beattie: The report seems to say that the pension fund trustees are driving the move, which implies that, ultimately, Transport Scotland had no choice but to pay in. If that is the case in this instance, why is it not the case elsewhere in the public service?

Fraser McKinlay: I do not think that the process is any different. Trustees are responsible for ensuring that pension schemes are viable into the future, and they set policies and employers will then pay accordingly. Graeme Greenhill might correct me, but I am not sure that the process is really that different in this case, although some of the numbers involved are different, which I guess is the issue. The relationship between the trustees of the scheme and Transport Scotland is not very different from the relationships involved in the local government pension scheme or any other.

Graeme Greenhill: Fraser McKinlay is correct. The local government pension scheme contributions have risen over the past few years and contribution rates have increased similarly with further education colleges.

Colin Beattie: Have they risen to the level that we see in this case?

Graeme Greenhill: No. We have not looked at the full history of the pension scheme, but the deficit will have arisen over time. I am speculating, but the recent increase in contribution rates is perhaps a function of a failure to address the deficit in earlier years.

Colin Beattie: Moving on to harbour dues, it seems that the harbours have two main sources of funds, which are basically a grant from Transport Scotland and the harbour dues that they charge for the ferries. Do they have any other source of income?

Graeme Greenhill: They are working harbours. Many are run by harbour trusts, so they levy dues on fishing boats, pleasure craft and so forth.

Colin Beattie: Do we know what proportion that is? It seems to me that the bulk of the money comes from Transport Scotland, one way or the other.

Graeme Greenhill: We do not have that information.

Fraser McKinlay: We do not know. As I say, we have concentrated on the Transport Scotland bit. Because, as Graeme Greenhill says, many of the harbours are either privately owned or in trusts, it would be hard for us to figure out what that proportion is.

Colin Beattie: Paragraph 31 says:

“Transport Scotland spent a total of £200 million on harbour dues between contract years 2007-08 and 2015-16. Of this, £155 million (78 per cent) was on harbours not owned by CMAL. Transport Scotland does not know how much of the harbour dues paid to non-CMAL harbour owners have been used for improvement works.”

That does not seem very satisfactory.

Fraser McKinlay: The risk that we identify there is the potential for almost paying twice. The harbour dues are an entirely accepted part of operating the business, but we cite examples where Transport Scotland has invested significantly to upgrade harbours, including harbours that it does not own, primarily to accommodate new vessels and new routes. I am not suggesting that that is not a good thing to do; we are saying that, as part of long-term planning, that needs to be considered more carefully in the future. The paragraph says that it seems to us that it would be reasonable for Transport Scotland to have a stronger handle on whether the money is being spent on upgrading the assets, even though it does not own them.

Colin Beattie: Equally, in that paragraph you note that Transport Scotland not only funds upgrading of the harbours that are not owned by Caledonian Maritime Assets Ltd but pays a higher level of harbour dues, which one would think would be part of the reinvestment back into the harbours, so it is paying twice.

Fraser McKinlay: Our challenge question for Transport Scotland comes back to our point about value for money. That might be an entirely legitimate and good thing to do for all sorts of reasons, but the issue does not seem to be at the forefront of people’s minds, and certainly we were not able to find a good explanation of why that model works well. Our suggestion or recommendation on that is that Transport Scotland should demonstrate the value for money of that spend.

Colin Beattie: Continuing on value for money, I was really surprised by paragraph 46, which says:

“The total amount of commercial vehicle traffic travelling across all ferry routes is unknown.”

We are happily measuring cars but not commercial vehicles, which must be significant. However, the paragraph says:

“Between 2007 and 2016, the number of commercial vehicles travelling across CHFS routes decreased by 22 per cent, to 89,500 vehicles.”

How does that factor into the planning? Is there any evidence that the issue is being taken into account? Why is the figure dropping?

Graeme Greenhill: We recognise that as a weakness. We think that Transport Scotland could develop its information to get a better handle on commercial freight traffic and to understand what is being carried. If it were to do so, that would be at least a contribution to developing a better understanding of the value of the ferry services that it subsidises.

Colin Beattie: The paragraph emphasises the drop of 22 per cent, but in the last sentence you state:

“In contrast, the number travelling on non-Transport Scotland subsidised routes increased by 16 per cent, to 81,900 vehicles.”

Why is that?

Graeme Greenhill: That could be due to a number of factors. One of the explaining factors is that, up to 2012, the CalMac Gourock to Dunoon route also carried vehicles. After 2012, it went to passengers only, so there probably has been a transfer of vehicle traffic to Western Ferries, which is a private operator that operates a little to the south of the Gourock to Dunoon route.

Colin Beattie: You are extrapolating and speculating that that is the case. I would have expected Transport Scotland to have that information at its fingertips, because it is important to the development of the routes.

Fraser McKinlay: That is exactly the core point. In paragraph 117, we set out in four straightforward and clear bullet points what the ferries plan says the funding of ferry services is designed to do. Our challenge is that Transport Scotland does not yet have the measurement frameworks in place to tell us whether those things are happening. The issue that you highlight is one example where better data and performance measurement are needed. We argue that, if a significant increase in investment is about increasing economic growth and all those other things—which is an entirely legitimate policy decision for Government to make—we need better ways of measuring that.

Colin Beattie: Would you say that Transport Scotland has sufficient information at its fingertips to be able to drive in an appropriate way the investment and development of routes?

Fraser McKinlay: We certainly think that that should be better developed. That is in a sense what we are getting at when we talk about value for money and longer-term planning. The ferries

plan was a good step and Transport Scotland has made good progress on that. A lot of that has been about delivering vessels and upgrading assets, which is all good. I am not saying that those are not good things to have done. The next bit is making the connection between that investment and what difference it is making to businesses and communities and people who travel on those routes day in, day out.

Liam Kerr: I have a quick question about Western Ferries, which Graeme Greenhill mentioned. Am I right in thinking that Western Ferries does not get any subsidy?

Graeme Greenhill: That is correct.

Liam Kerr: I would like to look at part 3 of the report, which is on procurement. Key message 2 on page 32 notes—as did Fraser McKinlay in his opening comments—that there were weaknesses in the CHFS procurement exercise and that 800 queries came in from the bidders during the tender process. On page 33, however, the report points out that there were a number of learning points from a previous CHFS contract that were not picked up in this process.

My first question is whether additional costs, both financial and/or non-financial, arose from the management of this procurement exercise? If they did arise, what were the extra costs to bidders, the CHFS service and to Transport Scotland?

09:30

Fraser McKinlay: I will check with Graeme Greenhill, Mr Kerr, but I do not think that we can give you exact figures. Bidders did say that costs were added to the process as it was not straightforward.

To be fair, one of the reasons why there was that level of queries was that the procurement method that Transport Scotland decided to adopt was designed to encourage dialogue and a bit of to and fro between Transport Scotland and the bidders, so you would expect a degree of that. There is no doubt that we think that that seems significant in terms of the numbers of queries. The bidders said that they felt that they were having to pull together their bids without some quite important information and that that was difficult. What they told us was that that inevitably added cost for them.

We cannot, I do not think, say much about what any additional costs might have been to Transport Scotland, but there is no doubt that it was a very involved process. Transport Scotland managed to get it done on time, but particularly towards the end of that process it was pretty tight.

Liam Kerr: You mentioned that it was a new process. One of my concerns is that if the client, in

this case Transport Scotland, or the state, is not confident in what it is doing because it is trying to put in place what we might call a novel contract using a new process, the system is doomed to have problems. The bidders, in this case the two bidders, will in effect incur costs while Transport Scotland learns on the job. That does not strike me as very fair to those bidding for a contract. Do you have any thoughts on that?

Fraser McKinlay: Yes. We touch on the chosen procurement method on page 37. There is no doubt that at that point it was novel. I think that Transport Scotland did it for the right reason, which was to encourage dialogue, but we make the point in our report that quite a lot of the conditions of the contract were pretty well set in advance. As I understand it, however—I am not a procurement expert—the competitive procedure with negotiation route is designed primarily for contracts in which the requirements are not very clear and are developed in a more collaborative process. It seemed like a slightly odd fit, given that a lot of the requirements of the contract were quite clear from early on.

If you are trying something different there is always a degree of learning. I would not want to be too critical of Transport Scotland for trying something different or innovative. I think that it had good reasons for that at the time. I also think, as we set out in that bit of the report, that that choice had some consequences for how the process went.

Liam Kerr: Going back to my original question, it appears that lessons were not learned from the previous process. Do you have any confidence that lessons have been learned now?

Fraser McKinlay: Yes. I think that we are more confident of that because we can see that Transport Scotland is taking steps to take a more strategic approach to procurement, whereas our report points out that it has been quite piecemeal in the past: people have been put on to run the procurement of a particular contract and then moved on to something else. Given the scale of some of this procurement, we think it is important that Transport Scotland takes a more strategic approach across the board to the procurement of ferries and the monitoring of those contracts. That links to the point about longer term national planning. We can see, through the procurement review and other things, that Transport Scotland is already taking some good steps in that direction.

Liam Kerr: I will move off procurement for a second. You mentioned the learnings that are coming now. On page 40 of the report you say that CalMac made 350 commitments in its bid and you go on to say that Transport Scotland has not assessed whether those 350 commitments have actually been met. Am I reading that correctly?

Fraser McKinlay: Nearly, I would say. It is fair to say that this has been a point of some discussion with Transport Scotland. Its argument is that because there was only one compliant bidder, which was the successful bidder in the end, there was no requirement pre-contract or pre-award to assess those 350 commitments. That is the point that we are making in the report. It is not that those 350 commitments are not being monitored; they are. Transport Scotland is confident that they are part of the contract and the delivery of those commitments will be monitored as part of the contract. It is not that they are not being delivered.

Our point is that there was no assessment of those 350 commitments at the point of awarding the contract. Transport Scotland's argument is that it did not need to assess them, because by that point it was clear that there was only one compliant bid. Our argument is that it would have been helpful to have evaluated those commitments in terms of the value that was going to be added. Again, that is our central point about measuring the impact of all this, not just individually but overall: what will we get for our money?

Liam Kerr: This is again a small side point. In effect, the process results in only one party being in a position to deliver on a contract and there is only one compliant bid. If that party bids—you will give me the exact figures—say, £860 million for a contract and then comes back, knowing that it has the state over a barrel, and says, "I need another £120 million added on top of this," we are not in a terribly good position, are we? We have to give in to the extra demand that was not budgeted for.

Fraser McKinlay: The starting point is that we would always want as competitive a market as possible, but in this case Transport Scotland was clear that there was one compliant bid. It was clear that it, through other work and other routes, was able to assess the value for money and the efficiency of the successful bid from CalMac. To be fair, the increase in the contract that subsequently came through was known about for some time by everyone who was involved, because it was related to timetable changes that everyone knew were coming.

It is not my sense that the situation that you have described, which theoretically could happen, has happened here. The increase in the cost of the contract would have been an increase in the contract regardless of who was delivering it because it was tied to changes in timetables and services. In effect, and I think quite reasonably, Transport Scotland had to draw a line in the sand at a point in time and say, "This is what the bid is," so that everyone was operating on the same playing field. It could not continually change those

requirements. Everyone knew that once the contract came into service, the cost was going to have to move on a bit.

Liam Kerr: My final question—and I will come back on point now—is on procurement. It is my understanding that at a general level there is no weighting for incumbency. That troubles me, because it seems to me that the only thing that incumbency will allow you to do is get from a long list on to a short list to be considered for a future contract. If I am right about that, where is the incentive for the incumbent operator, whether it be of ferries, trains or whatever, to invest towards the end of that contract? How confident are you that those new people who put the contract together in this case have sufficiently built in safeguards or paybacks towards the end of any of these contracts such that the incumbent has to continue delivering right up to the end?

Fraser McKinlay: That is a great question, Mr Kerr, and I am not sure that I have thought about it, if I am absolutely honest. I would be speaking off the top of my head, which is always a dangerous thing to do. It is a very interesting point, not just for this, but for all our work across procurement. We are happy to take that away and have a think about it and come back to you.

Liam Kerr: I would be grateful. Thank you.

Graeme Greenhill: A key point is the 350 commitments and Transport Scotland's responsibility to monitor the delivery of those commitments. The question is, what is the consequence if some of those commitments are not delivered? As Fraser McKinlay says, it is a good question.

The Acting Convener: Tavish Scott has a supplementary.

Tavish Scott (Shetland Islands) (LD): I was just about to say that I can think of an answer to that, but I am no longer the transport minister, so I am not going to try.

In Audit Scotland's view, does procurement provide value for money for the taxpayer?

Fraser McKinlay: In general terms?

Tavish Scott: On ferry contracts.

Fraser McKinlay: The conclusion that we have reached in the report is that it is not demonstrated clearly enough that procurement provides value for money.

Tavish Scott: But we could say that procurement provides value for money on the northern isles services, based on case study 4, which shows that the subsidy that used to go to CalMac prior to the most recent award has been dramatically reduced?

Fraser McKinlay: It has, although a good chunk of that reduction is not directly related to the operation of the contract. From memory, in the report we attribute about a third of the reduction to what might be called efficiencies and changes to the service. Other factors are a reduction in timetable and a reduction in the cost of fuel. I am always a little bit cautious about making direct comparisons across the different routes, because they are very different.

Tavish Scott: Absolutely.

Fraser McKinlay: What is clear is that, when we are procuring such services—which are hugely important to communities—for the amount of money that is being spent, more needs to be done to demonstrate the value for money that is being achieved.

Tavish Scott: Do you mean that more needs to be done in terms of the procurement exercise?

Fraser McKinlay: I am talking less about the procurement exercise on its own and more about the procurement exercise as the vehicle through which we get value for money in the delivery of the service.

Tavish Scott: The alternative to procurement is for the Government to just run all the services.

Fraser McKinlay: I see what you mean. Regardless of whether there is such a procurement exercise, the challenge for any public service would always be that it must demonstrate that value for money is being achieved. If a market procurement exercise is not to be used, there must be another vehicle for demonstrating value for money.

Monica Lennon (Central Scotland) (Lab): On a positive note, the Audit Scotland report highlights that Transport Scotland has made significant progress against commitments in its ferries plan to develop ferry services and assets between 2013 and 2022. That is very good—and welcome.

However, I am struck by the fact that you highlight in the report that it is extremely difficult to quantify future spending. There seems to be very little information about assets and so on. It appears from where I am sitting that an awful lot of people must be burying their heads in the sand. Can you provide a bit more insight into why there is so little information and why we are in this situation?

Fraser McKinlay: Our sense is that Transport Scotland has a sense of what it could spend on new vessels, services and upgrades well into the future. The challenge that we have is in relation to the extent that that is prioritised and captured across all services across the whole of the country. The situation is better in some places

than it is in others. We are not talking about a complete absence of prioritisation.

For example, there are consequential costs for things such as road equivalent tariff, which need to be thought through. There is the immediate and direct subsidy for reducing the fare, but if we take the reduction in fares that is coming to the northern isles in 2018, as well as whatever the direct cost of that will be once the reduction has been decided on, there will potentially be longer-term costs, depending on demand and behaviour and other things that have knock-on consequences. To be fair, such costs are difficult to pin down exactly, but we think that there is more that could be done to estimate those longer into the future.

Graeme, do you have anything to add?

Graeme Greenhill: I do not think that I would add anything to that. To some extent, it is a work in progress. There are lots of developments planned and under way. The precise costs of those developments will become clearer over time but, as part of good financial management, Transport Scotland should certainly be looking to at least estimate the consequences of some of those developments.

Monica Lennon: From what you have seen, does it look like good financial management to you?

Fraser McKinlay: That issue came up at the time of the report launch. We are not critical in the report of the way in which the money is spent day to day or of the way in which that process is managed and looked after. Transport Scotland knows where the money has gone and what it is being spent on. That is not really the concern.

The issue is to do with longer-term financial management and planning and the investment that we think is required. As Mr Beattie mentioned, there is a genuine question about whether the current level of investment is sustainable in the current environment. Of course, it could be sustainable if the Government decides that that is what it wants to prioritise its spending on, but we think that that needs to be based on a stronger sense of longer-term planning for the whole of the ferries network and, importantly, what it is designed to achieve.

09:45

Monica Lennon: I appreciate that some of the future costs are difficult to calculate, but in the report you highlight that, in relation to assets, the condition of around half the harbours is unknown. Surely work could have been undertaken to get that kind of information. Why is there an absence of information on that?

Fraser McKinlay: Yes, that is a great example of exactly the kind of thing that we think needs to be done. Again, it is not straightforward, because Transport Scotland does not own half the harbours. As Graeme Greenhill said earlier, they are in different kinds of ownership, but they are used by Transport Scotland-subsidised ferry services. There are examples of cases in which decisions have been taken about a new vessel or a new route that have required significant upgrades or changes to harbours. Having a better sense, up front, of the condition of the assets across the piece—which will obviously require lots of collaborative work and working in partnership with all the different owners—is an important part of the story. That is why we keep banging on about having a national plan that is genuinely national, and which looks at not just the assets that are owned or subsidised by Transport Scotland but takes account of the full range of equipment, assets and boats that are out there.

Monica Lennon: I would like to understand that point a little bit better. Has that audit work on the conditions and maintenance not been done because of the ownership structure, or has it just not been planned for?

Graeme Greenhill: I think that it is simply the case that that work has not been carried out. The creation of CMAL provided a greater incentive to look at the condition of its harbours and to come up with an estimate of how much upgrading those harbours require, and it would be a good thing if that principle was extended to those other harbours that CMAL does not own.

Monica Lennon: If officials are listening today, who needs to get that memo and take that work forward?

Fraser McKinlay: The ferries team needs to be looking at that. To be fair, I think that we have a degree of confidence that ferries are beginning to be looked at in a more strategic way. We would say the same thing to any public service organisation: have a decent asset management plan, know the state of your current assets, know what your priorities are and know, therefore, what you need to spend and where you need to spend it into the future. The situation with regard to ferries is exactly the same, although it is complicated slightly by the fact that CMAL does not own all the harbours. However, it uses them, so it is important that Transport Scotland has a good, clear picture of their condition.

Monica Lennon: I will stick with long-term planning. From what the report says about case study 5 on page 49, I get the impression that there might be a wish list of projects for vessels and for harbours, but that many decisions might be on hold, because if it is not known how much investment is required in the harbours, the

decisions about the vessels cannot be made. Are you able to say to what extent you think that decisions are on hold? Are things being kicked into the long grass?

Fraser McKinlay: I do not think that we have had a sense of that; I do not think that that is the issue.

The case study in case study 5 is an interesting case study—that is why we pulled it out. It is a good example of the need to ensure that the investment decisions are all joined up. It is one thing to decide on a new route or a new boat, but it is then necessary to think about what that means for the harbour. Our sense is that, in the past, those decisions have, at times, not been as joined up as they might have been. We decide to build a longer boat and then we think, “That needs a different upgrade to the harbour”. That is an example of how all that thinking needs to be more joined up. That is not just the case in individual areas—we are looking to encourage such joined-up and strategic thinking right across the piece.

Graeme Greenhill: As Fraser McKinlay said earlier when he spoke about the ferries plan being a good initiative, it is an attempt to look at the future. It looks at what the current demand on the ferry services is, what the likely future demand is, and what that means in terms of capital investment in new vessels, harbour upgrades and so forth, which is all good stuff. That is there, but we think that the next step is to extend the principle of the ferries plan, which is focused on the Clyde and the Western Isles, and to make it an all-encompassing, Scotland-wide ferries plan. We need to have a ferries strategy that speaks to and is compliant with the overall national transport strategy.

Monica Lennon: Did Audit Scotland assess whether we have a sufficient number of ferries that are designed to withstand adverse weather incidents?

Fraser McKinlay: The short answer is no, we did not. We obviously looked at and reported on the number of adverse weather and other relief incidents, but we have always made it clear that we do not have the expertise to get into judgments about which boat is the right boat. It has to be said that we did hear a lot about that when we visited communities. Anecdotally, a lot of people would say that some new boats are more or less able to berth in some places. I have family members on Rothesay and I hear that a lot on that route, but we have not really been able to make an assessment of the extent to which that is the case.

Monica Lennon: Something else that was flagged up to me when I spoke to other MSPs who are more familiar with ferry services than I am is that the booking systems do not track how many

people are unable to book a place because ferries are full. Can you confirm that? Did you do any work on that?

Graeme Greenhill: We did not look specifically at that issue, but we are aware that there have been issues with CalMac and its booking system. Many of the island groups that we spoke to raised that. We can confirm this later, but I think that improving the booking system is one of the 350 commitments.

Monica Lennon: The points that you have made about long-term planning are quite clear. It seems to be a recurring theme in other Audit Scotland reports. Recently, we have looked at your plans on national health service workforce planning and self-directed support. Would you agree that that is a recurring theme? What is the message that you would like to put out there?

Fraser McKinlay: Absolutely. I think that colleagues in Government are probably fed up with us saying it, but it is not going to stop us saying it.

Monica Lennon: Are they listening?

Fraser McKinlay: Yes, in some cases I think they probably are. To be fair, there is a ferries plan that is relatively long term; it runs until 2022. It is a 10-year plan. We would encourage Transport Scotland not to wait until 2022 to start writing a new one. We need to look at that soon so that there is no gap between the two.

Long-term planning has always been important. Given everything that we know about increasing demand and expectation and the fact that finances will almost certainly reduce, it seems to me that such long-term planning is more important than ever. We will keep banging that drum, and we are hopeful that we are seeing signs of progress in some places.

Monica Lennon: The recommendations that you make on page 6—particularly those on having a long-term strategy—are very basic. They cover the nuts and bolts of what we would expect. I am a bit concerned that that has not been covered already. What is the risk if those recommendations are not implemented quickly? I will not go over them all; they are listed on page 6.

Fraser McKinlay: We try to make our recommendations as clear as we can so that they are actionable. I think that Transport Scotland has agreed with most of them, which is good. The risk is not necessarily directly to the services that people will experience day in, day out. The risk is to do with sustainability and value for money. We think that that is the key point here, which is why the recommendations start with the point about long-term strategy, because it seems to us that ferries have enjoyed a very significant increase in

investment over the past 10 years. We are raising a question as to whether that can continue into the future. In order to make such decisions, Transport Scotland needs a good long-term plan that is genuinely Scotland wide that helps us to prioritise how and where we are going to spend that money.

Alex Neil: I have four questions. First—I ask this as a fan of CalMac—some people have put it around that there is an issue around the cost structure of the company. For example, one allegation is that there are people on salaries of about £70,000 a year who need to work only about 16 weeks a year to get that £70,000. Is that true or is it a myth?

Fraser McKinlay: We do not know, is the short answer to that question.

Alex Neil: Should not we be finding out?

Fraser McKinlay: It is interesting that there is discussion and a debate to be had, but not necessarily about those kinds of numbers. We heard very strongly from communities and from CalMac that those are very good quality jobs in pretty fragile communities. There is a benefit to having well-paid jobs in such communities: CalMac is very clear about that. In fact, one of the things that it evaluates—we mention this towards the end of the report—is the amount of money that CalMac employees bring directly into local economies. That is important.

Finally, I come back to the value-for-money point. When we look at what the new northern isles ferry contract has done in terms of different ways of working and efficiencies, and then look at comparators, for example the Gourock to Dunoon route, we see that there are some important questions to be asked about efficiency and value for money. I cannot comment on the stories that we have all heard about how much people are paid, but I think that Transport Scotland and CalMac have a responsibility to demonstrate value for money in everything that they do.

Alex Neil: I agree that, irrespective of salary levels, the more such people who live on the islands the better for everybody, particularly for the island economy, but there is no evidence that most of them live on the islands. With the best will in the world, if it is remotely true that people are earning £70,000 for a 16-week year, you cannot tell me that just because that is good for the islands it is an acceptable situation from the public audit point of view.

Fraser McKinlay: No—I agree with that. If you, or anyone else, has specific suggestions about what we should look at, of course we will be happy to do that.

Alex Neil: I think that you should look at the cost structure in order either to put the myths to

rest or to find out that they are true. Either way, we need to know. I see other members nodding. The job of the auditor is to find out.

Fraser McKinlay: I am happy to take that suggestion away. I will say, however, that the context of the report is delivery of the service overall, so we will not always get into that level of detail. As I said, if there is a specific concern, I am happy to take that away and look at it.

Alex Neil: We have to explode the myth or find out that it is true and deal with it either way. If it is not true, it is a very unfair slight on CalMac, which in my view is an excellent institution: it is “an institution” as far as the people of Scotland are concerned.

My second question, to follow up on something that Monica Lennon said and to which the convener referred, is about the reduction in passenger numbers. Obviously, as Graeme Greenhill said earlier, numbers are variable: in the Clyde estuary, for example, there has been a significant increase in the number of passengers and traffic, but does that suggest, given the share of the total traffic that the Clyde estuary makes up, that there has been a decline in passenger numbers elsewhere in the network? Is it understood whether the decline in passenger numbers is due to lack of capacity? Monica Lennon referred to people being unable to get on ferries because they are not booking in time. People now have to book well in advance to have any chance of getting on the Arran ferry, for example. Is there a lack of capacity? Do we need—Arran being a good example—more service provision to increase the numbers, or is there a lack of demand?

Fraser McKinlay: Graeme Greenhill will help me with the numbers. Scotland wide, there has been a very small increase, of 0.3 per cent, in passenger numbers. In answer to an earlier question, Graeme Greenhill said that the Clyde and Hebrides element of that is a 7 per cent increase.

Graeme Greenhill: That is correct. Paragraph 42 on page 26 of the report gives a breakdown of the change in passenger numbers by individual network.

10:00

Alex Neil: Yes—but where the position is static or there has been a decline, is that due to a lack of capacity, and pent-up demand is not being met, or has there been a fundamental reduction in demand? Do you know?

Fraser McKinlay: We do not know for sure. The capacity question is an interesting one, because it is very route specific. Over the piece, if one looks

at all sailings at all times of the year, one could argue that most ferry services are operating significantly under capacity. Some are operating at nowhere near full capacity but, as you say, there are pressure points on some routes at particular times of the year, which causes the problem. That, again, is why the targeted investment is so important: you would not want to increase capacity everywhere. Investment needs to be targeted specifically.

Alex Neil: We should all—obviously, including Transport Scotland—be trying to understand better, almost route by route, why there are those trends to see what we can do about it. When I worked in industry, if there was a fall in demand, finding out why was one of the first things that would be done, then we would look at ways of generating additional demand in order to get better use of the asset.

Fraser McKinlay: In some cases—again, Graeme Greenhill will keep me right—the decrease has been because there have been fewer sailings. I think that that is one of the reasons for the decrease in the northern isles service numbers.

Alex Neil: Have there been fewer sailings because of contractual arrangements, lack of capacity or lack of demand? Is the reduction because of competition from cheap airlines?

Fraser McKinlay: I do not have an answer for you, but those are exactly the kinds of things that you would want to unpick and understand, for sure.

Alex Neil: Transport Scotland needs to get a good understanding of what lies behind the figures.

My third question is on the economic and social impact of the RET. I think that it was Graeme Greenhill who made the point earlier that it is, in some areas, perhaps a bit early to get a full economic and social impact assessment. There are obviously downsides and upsides to the RET. Anecdotally, I say from my experience that the economy of Arran has, as a result of the RET, never been more successful, but that may also be due to other factors. Is Transport Scotland or the Government planning to carry out an economic and social impact assessment of the RET, and will that include the impact on freight traffic as well as on passenger traffic?

Graeme Greenhill: I do not know. I would expect that there would, in the normal circumstances of introducing a new service or new initiative such as the RET, as a matter of course be evaluation of the success of the initiative a couple of years down the line.

Alex Neil: We need a real assessment of the value for money from the RET. My view is that it has been highly successful. The whole purpose of it was to help the economy and the social fabric of the island communities; my impression is it is an investment that has been well worth making, but we need evidence that that is the case.

Fraser McKinlay: We set out on page 25 in paragraphs 37, 38 and 39 what Transport Scotland has done to date: it has evaluated the pilots, which look good. That is positive. There is variation in impacts on different routes, which is why it is important—this is Alex Neil's point—to have a more global assessment of the significant money that is being invested in the RET; for example, evaluation of the RET on the northern isles service next year. That kind of evaluation would not only assess how much the RET has cost and what it has done for passenger numbers, but what its knock-on impact on local economies has been. That is the key bit—the extra link that is missing at the moment.

Alex Neil: Purely from the narrow point of view of an accountancy exercise, I do not think that we know the full benefit of the positive aspect of the RET. We now need to start looking at that.

Fraser McKinlay: Yes. Passenger numbers tell a bit of the story, but we really want to understand, for example, the spend per head of people on the island and the make-up of the passengers. Higher spending passengers are clearly better than lower spending passengers. Numbers tell part of the story, but a more sophisticated assessment of actual economic impacts of the numbers trends once people are on the islands and spending their money is needed.

Alex Neil: This is my final question. There has rightly been substantial increase in investment in our ferry services. Despite that, there is still an issue around the age profile of the ferries. It seems to me that we went through, in the 1980s and 1990s, a period of investment starvation, and we have not yet been able to catch up totally with the backlog that was created as a result of that very lean period. Have you had an opportunity to consider the situation in 10 years or in 25 years? The work of CMAL is obviously important in terms of raising capital and so on, but is the age profile improving, and is it improving fast enough?

Fraser McKinlay: I do not know whether we have a specific answer to that question. Transport Scotland has—I forget the name of the plan. Graeme?

Graeme Greenhill: It is the vessel replacement and deployment plan.

Fraser McKinlay: Thank you. That plan is designed to look to the future and to consider what investment will be required. Obviously, the

Government has invested and continues to invest. We saw the launch at Ferguson Marine Engineering's shipyard this week of a new ferry. We can try to find out for you the detail about ferries' age, although I think that Transport Scotland is aware of the issue and is looking ahead for exactly that reason.

Alex Neil: That additional information would be very useful, along with the additional information on the cost structure—in particular, on whether accusations that are being made about people earning £70,000 for working 16 weeks a year are true.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I have only a couple of questions; colleagues have covered quite a lot of the territory pretty well. On passenger numbers, you take as your starting point in the report 2007, I think. You say that passenger numbers went up by 0.3 per cent. I take it that those are foot passengers and not cars?

Fraser McKinlay: Yes.

Willie Coffey: Transport Scotland's report to us for the committee today suggests that the foot passenger numbers went up 9 per cent in the past year. That was the first year of the RET. Does that mean that numbers declined significantly in the years since 2007 and then spiked in the first year of RET? Is that what we are seeing here and is that reflected in all the services?

Graeme Greenhill: I will try to unpick that. The 0.3 per cent increase in passengers over the past 10 years is an increase in Scotland-wide numbers. If you look at the statistics, there has been a significant decrease in the number of passengers travelling on the Gourock-Dunoon route. Over the past 10 years CalMac passenger numbers have gone up by 6.9 per cent. You can see from the report that the number of CalMac passengers in 2016-17 increased by 9 per cent.

Fraser McKinlay: Do we have a year-by-year breakdown over that period?

Graeme Greenhill: We do not include that in the report, but we can certainly provide it.

Fraser McKinlay: If Willie Coffey's question was about the pattern over the period, we do not have it in the report, but we can provide it, I am sure.

Willie Coffey: There is such a discrepancy between the two numbers. Transport Scotland is saying that numbers are up by 9 per cent, but your figure is 0.3 per cent over 10 years.

Fraser McKinlay: Indeed. The 9 per cent increase was in the past year, which is, as has been said, the first year of the RET. That may be a sign that the trend will be of increasing numbers—

although I guess that it is too early to tell whether it is a trend or just something that has happened in the past year. We will want to keep an eye on that.

Willie Coffey: My other question is about your recommendations. Did you get the sense that Transport Scotland has embraced and signed up to your recommendations? I got the sense that it has not really, in its response to the committee. It says that it notes your comments, that it is already making progress and so on.

Fraser McKinlay said that Transport Scotland does not measure the social and economic impact, but it says that the services have a significant social, cultural and economic impact on the islands. How can it say that if it is not measuring the impact?

Fraser McKinlay: On that last question, that, in a sense, is our challenge: that phrase or similar phrases appear in lots of places. Of course, being auditors, we then go and ask, "How are you demonstrating that?", which is where it gets a bit tricky. That is why we think that there is more to be done on that. To be fair, as I mentioned earlier, the policy assessment framework is a route through which Transport Scotland will start trying to do that.

On Willie Coffey's core question, I am confident about the longer-term strategic planning. The Minister for Transport and the Islands was at the Rural Economy and Connectivity Committee yesterday, where he again confirmed that the Government is committed to a longer-term strategy, which is very welcome. Our sense from what Transport Scotland has said and from working with colleagues in Transport Scotland is that it is genuinely committed to such an assessment and thinks that that is a helpful recommendation.

To be honest, I think that procurement has been a point of contention. Transport Scotland does not necessarily agree with our conclusions, which is legitimate. That is fine; it happens sometimes. As you will see from its response, it mentions the fact that it has won awards for procurement and other things.

That said, Transport Scotland is already taking steps, as I said to Mr Kerr earlier, towards a more strategic to procurement, and is learning lessons from the previous exercise. We made specific points around qualifications of people in the team, for example, on which I think there might still be a bit of disagreement, but our sense is that Transport Scotland is, over the piece, accepting of the report and its recommendations. Obviously, we will keep an eye on implementation.

Willie Coffey: You have said that Transport Scotland's performance is really good and that we should acknowledge that right across the board. I,

too, think that the report is good: it offers, let us say, opportunities for improvement that we expect the services to embrace. What would you expect to have seen if, say, in a year you come back to report again to the committee? It is a frequently asked question in the committee. How would you expect performance improvements to be evidenced for us?

Fraser McKinlay: As you said, the issue is not really the performance of the ferry services, per se—although, no doubt there are areas that members will be aware of that could improve and perform better. It is about demonstrating value for money and sustainability of the services. Obviously, we are waiting to see what the budget holds in the next few weeks. If the trajectory of spend continues as it has for the past 10 years, it will be very important for Transport Scotland to be able to demonstrate that the spend is sustainable and that it offers value for money. As I said when we published the report, the money could be spent on other things, so we need to be clear that the additional £100 million is the best way of delivering sustainable growth to the island communities. That is our challenge. It is not about the quality of the service or the quality of the boats, from which we have all benefited, but about sustainability and value for money.

Bill Bowman (North East Scotland) (Con): Many of the areas have been covered, so I will jump around a little bit. In your report, you talk about Transport Scotland all the time and there seems to be a sort of corporate veil of secrecy. Who are you dealing with? Can you name the positions, if not the individuals, that are giving you all these answers, which you want to hold responsible?

Fraser McKinlay: For clarity, in absolutely no way did we mean to have a veil of secrecy over this, Mr Bowman. What we did is pretty routine practice for us. We tend to name the corporate body because that is what we audit—we do not audit the individuals; we audit the corporate body. Graeme Greenhill can give you a sense of the kind of people we have been dealing with.

Graeme Greenhill: Ultimately, the chief executive of Transport Scotland is accountable for ferry services.

Bill Bowman: Who is that?

Graeme Greenhill: Roy Brannen is the chief executive. There is a director by the name of John Nicholls on the senior management team, and he has responsibility for ferries. There is also a ferries team beneath that level, which does the day-to-day stuff and reports to John.

Bill Bowman: I presume that you have discussed the report with him?

Fraser McKinlay: We go through the formal clearance process. We submit every report that we produce to the relevant accountable officer, who writes back confirming the factual accuracy of the report. We have followed that process.

Bill Bowman: What did he say when you told him that it is difficult to determine whether Transport Scotland's spending on ferries represents value for money? That is a pretty damning conclusion, is it not?

Fraser McKinlay: I think that the response—

Bill Bowman: I mean his response.

Fraser McKinlay: His response is the corporate body's response, I guess, and it recognises that there is more that it could do. I think he would say that it is already doing something about that. I mentioned earlier the policy assessment framework, which is designed to do just that. As is often the case in these reports, there is a robust exchange of views about what we think and what it thinks, and it is always very professional. As I say, he accepted the factual accuracy of the report.

It is, however, important to say that the judgments are the Auditor General's and we do not ask accountable officers to agree or disagree with them. That is not for them to do. What they are agreeing with is the factual accuracy of the report that you have in front of you.

10:15

Bill Bowman: I presume that you have seen the two-page response in which you say that you got agreement. I do not really see any agreement—Transport Scotland “notes” and “may take account”. There is nothing like a plan that says—this has come up before, I think—what the issues are, who is responsible, how Transport Scotland will deal with the situation and when it will deal with it. That would sound like agreement; what we have sounds like a pretty pathetic response that just says how wonderfully Transport Scotland is doing—“You may have some points, and we will think about them”.

Fraser McKinlay: I guess that it will be for the committee to decide what you want to do about the response from Transport Scotland. Do not get me wrong, Mr Bowman—I would like that response and all responses to be more specific and to have a better action plan in place.

Graeme Greenhill is the auditor of Transport Scotland as well—for his sins—so he is part of the annual audit process that, as you know, is happening all the time and will follow up the recommendations in the report. We have mechanisms in place to make sure that they are followed up. If our sense is that Transport Scotland is ignoring the recommendations or not

implementing them, we have that route through which to report to the Auditor General and then, potentially, back to the committee.

Bill Bowman: I want to ask about one or two specifics. There was a mention in paragraph 119, I think, of the amount of money that goes into local communities, which is £85.8 million that is being paid in direct and indirect salaries. What is the net cash amount? Is that gross salary or is that the employer's total costs of the salary? I would guess that, if that is the equivalent of your quoted salary, by the time that you take off tax and that sort of thing, the actual amount of cash that is going in will be somewhat less.

Graeme Greenhill: I cannot answer that question today. We will go back and check the report.

Bill Bowman: Is that the figure?

Graeme Greenhill: Yes. That is the figure.

Fraser McKinlay: Yes. That is the CalMac figure.

Bill Bowman: I think that you spoke about market procurement being needed to ensure a value-for-money assessment. Did we have market procurement when there was only one bidder?

Fraser McKinlay: I did not quite say that. I think I said that, in the absence of an organisation going to market for procurement, we would still expect it to be able to demonstrate the value for money of whatever it was doing. That is the point that I was trying to make. As I said earlier, Mr Bowman, we would always want as competitive a tender process as there could be. However, the reality is that there will be only so many people who are able to deliver the kind of service that is being delivered across the Clyde and Hebrides services.

Bill Bowman: It seems that there was only one.

Fraser McKinlay: In the end, there was only one, because the Serco Group bid was judged to be non-compliant. In a sense, that is why we keep banging on about the need for value for money, as that makes it even more important that Transport Scotland is able to demonstrate value for money, and it is why it is really important that we make the point about the 350 commitments. Our view is that, because there was only one compliant bid, it is, if anything, even more important to have all those mechanisms in place than it would be if there were two compliant bids, if you see what I mean.

Bill Bowman: Does anybody look at the operating efficiency of the routes and the vessels? I presume that the subsidy reflects the results of the companies that are running the routes. Who monitors whether they are running them as efficiently as they can?

Graeme Greenhill: Transport Scotland has a responsibility to monitor CalMac, but the size of the subsidy that is paid to CalMac is fixed in the contractual arrangements. Ultimately, the operational efficiency of CalMac is partly influenced by its thinking about how much subsidy it needs to run the services. Because it is involved in a competitive procurement exercise, CalMac needs to think about how efficient its services are in order to minimise the amount of subsidy that it requires to win the contract.

Fraser McKinlay: In appendix 2, we set out the different roles and responsibilities. As I said right at the start of our evidence, there is a complex picture of how it all works with the various organisations and subsidiaries. Transport Scotland is responsible for monitoring the performance of the ferry operators and for managing the subsidy payments. That is about monitoring the performance, the cost and the subsidies against the contract. As we have said throughout today and in our report, Transport Scotland will want to assure itself that it is getting the most efficient service that it can get, which will be important in the context of the current procurement review. We think that there is scope for more targeted monitoring and evaluation of the kind of thing that you are talking about—the operational efficiencies.

Bill Bowman: It may not have been part of what you are doing now, but will that be subject to another review by you at some point?

Fraser McKinlay: There are no plans for that at the moment. Nevertheless, through Graeme Greenhill's audit of Transport Scotland as an organisation, we will want to keep an eye on how it is monitoring the CHFS contract. I understand that the minister will produce an interim report on the procurement exercise in the next few weeks. That will be really important for the northern isles and Gourock to Dunoon ferry contracts, both of which are currently on hold.

As I mentioned, it appears that the subsidy for the new contract for the northern isles has been reduced. Part of that is, as I said, to do with reductions in the number of sailings and the price of fuel; however, some of it is because of changes in the way that things are run, which appear to have made the services more efficient. I think that there is a challenge for Transport Scotland and the ferries team in managing those three contracts across the board more strategically to ensure that, if there are efficiencies and lessons to be learned in one contract, they are able to apply those to other contracts.

Tavish Scott: On that last point—I know that I am not meant to make points like this—if NorthLink Ferries gets it wrong with the freight exporters in Lerwick, which are transporting fish, mussels and farmed salmon that are now worth

£300 million a year, we take the company to task. I am not sure what happens on the west coast, but there is a very active customer relationship between the operator and the shipping company in the northern isles. I cannot not speak for the west coast, but I recommend that model to the committee.

I have two questions, the first of which is on Alex Neil's points about the RET. Paragraph 40 of the report states:

“As the Scottish Government did not set clear objectives or targets for RET, it will be difficult for it to determine”—

and so on. Is there any evidence the Government has now done that? I take your point about the difficulty of assessing a policy when the Government did not set out what it wanted to do. That is not a criticism of Transport Scotland; that is the Government's responsibility.

Fraser McKinlay: The short answer to that question is no, not really. I think that the view was taken at a policy level that the RET was a good thing to do.

Tavish Scott: So are lots of things. Having a baby is a good thing to do.

Fraser McKinlay: Lower ferry fares are a good thing. In a sense, that is our central challenge. As I mentioned, the ferries plan says that it sets out to do some things. The simple question is, how do you know whether it is doing those things?

Tavish Scott: My second question is about paragraph 116, in which you make some pertinent observations about future implications, which a number of colleagues have asked about. The last bullet point in that paragraph is on freight, which is fundamental to the services, as you and your team know. You point out that freight fare options have been reviewed and discussed since 2014. Is there any suggestion that that review might come to a conclusion?

Fraser McKinlay: You will get that information from Transport Scotland, Mr Scott.

Tavish Scott: I have lodged parliamentary question after parliamentary question on the matter.

Fraser McKinlay: Indeed. I listened to the minister at the Rural Economy and Connectivity Committee yesterday, and no timetable was given. He said that he is looking for more assurance about the impact of whatever decisions Transport Scotland makes, but, at the moment, there is no timescale for publication.

Tavish Scott: There is no timescale whatsoever. You say:

“The aim is to introduce a consistent freight fare structure across the Transport Scotland network which

means that costs will increase on some routes and decrease on others.”

Do you mean across the west coast or across the whole ferry network? I want to understand what that means.

Fraser McKinlay: We can check, but I think that it means everything.

Graeme Greenhill: Yes. I think that it means everything.

Fraser McKinlay: I think that that will apply across the board.

Tavish Scott: You made a very fair point about the complete difference between the routes from Orkney across the Pentland Firth and from Lerwick to Aberdeen and the routes that some of my colleagues described. Do you think that that difference might be material to the freight fare review?

Fraser McKinlay: I sure do. We are not at all close to concluding the review, Mr Scott, so I cannot say much more about it. Nevertheless, I would anticipate that the review will take into account all those factors.

Tavish Scott: My colleagues have asked about passenger numbers and car numbers. However, for me, freight is the most significant thing. NorthLink Ferries can provide you with reams of statistics about how much freight it carries. Is that not the case on the west coast?

Fraser McKinlay: That is correct. I think that NorthLink Ferries regularly reports on freight numbers publicly.

Tavish Scott: Yes, it does.

Fraser McKinlay: Similar information is harder to come by on the west coast.

Tavish Scott: NorthLink Ferries could provide the committee with any information that it wanted about freight changes and so on. Am I correct in thinking that that would not be the case on the west coast?

Graeme Greenhill: That is basically correct, yes. NorthLink Ferries, in particular, has a much better handle on the types of freight that are being carried than CalMac does.

Liam Kerr: Let us return to the value-for-money point that various members have raised. On page 26 of your report, you talk about what seems to be a competing service. Correct me if I am wrong on this, but it seems that, between Gourrock and Dunoon, Argyll Ferries is running a subsidised passenger-only service that has seen a decline of 50 per cent in passenger numbers. Alongside that, the unsubsidised Western Ferries service that has cars on it as well has seen an increase of 1 per cent in the number of passengers. That is an

increase of 1 per cent against a 50 per cent decline. I cannot remember where I read this, so you will correct me if I am wrong, but I understand that the Argyll Ferries vessel runs at approximately 7 per cent of capacity. If that is right, as a taxpayer I should be thinking, “Am I paying for too big a vessel? Am I paying for a duplicate service? Am I paying for too many sailings? What is going on?”

That does not appear to represent value for money. What is Audit Scotland, Transport Scotland or any agency doing—in terms of both that particular route and the wider picture—to assess whether the taxpayer is getting value for money from subsidising a competing service?

Fraser McKinlay: The responsibility for that rests with Transport Scotland, first and foremost. The reason that we focus on the Gourrock to Dunoon ferry is that it is one of the few services for which there is almost a direct comparator. I say “almost” because, although they go, broadly speaking, to the same place, different kinds of vessel are used and they take a different route. Anecdotally, we hear a lot about the differences in the consistency and reliability of the services that are provided there. As you say, the information in exhibit 6 in the report is striking.

We are not party to the current review of procurement policy, but I would expect it to think about that situation very carefully, because it is one of the few areas where there is already a successful and sustainable private sector provider. That is not the case for most other routes—certainly not in the Clyde and Hebrides part of the business.

The short answer to your question is that that is exactly the kind of question that Transport Scotland should be asking itself as part of the review. I understand, from listening to the minister yesterday, that the Government will be looking to extend the current Gourrock to Dunoon service contract because the review will not be quite finished in time for the end of that contract, and I anticipate all the questions that you have asked being part of that review.

Liam Kerr: Let us be absolutely clear. To the best of your knowledge, Transport Scotland will produce that value-for-money analysis in the review.

Fraser McKinlay: I would not go that far. I would love it to do that.

Liam Kerr: You are telling me that it should.

Fraser McKinlay: I think that it should in the same way that we say in our report that it should be able to demonstrate value for money in all the services. What is interesting about the Gourrock to Dunoon service, which brings it into sharp focus, is the fact that there is a close comparator the like of

which does not exist anywhere else. For me, too, the key point is the ability to demonstrate value for money. Because the services that run that route are close together, that brings the matter into sharper focus.

10:30

The Acting Convener: I have one final question. I did not see anywhere in the report—I might have missed it—an assessment of the procurement of maintenance and repair of our ferries. A lot of that work used to be done in Scotland, but is now all done in Liverpool, as far as I am aware. Did you see the process that underpinned that decision?

Graeme Greenhill: We did not look at it as part of the report.

Fraser McKinlay: Sorry, convener. We did not look at it and we did not come across it, so we cannot help with that.

The Acting Convener: That is fine. It just seemed to be an unfortunate loss of jobs elsewhere, but there you go. I thank you both for your evidence this morning.

10:31

Meeting continued in private until 10:43.

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