

Report to Partnership Meeting 3 February 2023

RESEARCH AND STRATEGY DELIVERY

Project Neptune Consultation

Purpose of Report

To update Members on the appointment of Angus Campbell (former Leader of Comhairle nan Eilean Siar and Chair of the Ferries Community Board) to lead a community consultation to gauge views on the recommendations of the Project Neptune reports.

Background

Ministers announced a review of the governance arrangements that guide the delivery of Scottish Government contracted ferry services. The primary focus of this review is the governance model applied to the Clyde and Hebrides Ferry Service contract although we would expect any new approach taken with respect to CHFS services to be applied in how Northern Isles Ferry Service (NIFS) contract is also managed and delivered.

In recognition of the challenges associated with delivering ferry services on the CHFS network, EY was commissioned to develop a framework that would aid Transport Scotland in understanding the range of options that could be implemented to improve service delivery.

Preferred options should be capable of enhancing passenger experience, supporting local communities and be accountable, transparent and capable of achieving Best Value.

Benchmarking

To develop a long-list of options for consideration EY completed a benchmarking exercise that focused on two groups of comparators:

- Overseas ferry operations delivering similar types of services (i.e. lifeline) to those being delivered under the CHFS contract; and
- Other domestic infrastructure that provide critical services, often under contract with the Scottish Government.

The benchmarking exercise was informed by interviews with industry and government figures, as well as reviews of relevant documentation, including government policy papers, company annual reports and academic papers.

It is worth noting that no interview was undertaken with HITRANS and engagement was limited with partner Councils.

Framework of Strategic Options

No predominant approach was identified during the benchmarking. Rather, a broad range of regulatory models and corporate structures, as well as contractual arrangements, were observed.

The various attributes of each case study were used to develop a long-list of options. These options, not mutually exclusive of one another, can be categorised within one of the following four groupings:

- Regulation: The introduction of greater regulation to the ferries sector
- Integration: The integration or assimilation of certain members of the Tripartite
- Privatisation: The sale of either CMAL or CFL (or their assets)
- Decentralisation: The transfer of responsibility for delivery of some or all ferry services to local authorities.

As well as providing an overview of each option the EY report provides an indication of the responsibilities of each Tripartite member under each of the long-listed models.

Evaluation of Strategic Options

Having established a framework of strategic options for consideration EY developed an evaluation methodology with reference to Transport Scotland's mission of delivering "a safe, efficient, cost-effective and sustainable transport system". Specific criterion relating to the following were identified:

- The impact of an option on Passenger Experience and Local Communities
- The extent to which an option is Deliverable
- The impact of an option on Accountability and Transparency

EY's qualitative assessment set out to identify those options that could have a favourable impact on the above criteria versus the status quo.

Options that scored well across the range of criteria were judged as having high potential to contribute towards Best Value.

Outcome of Evaluation

The preliminary evaluation found merit in greater regulation and integration, but noted substantial challenges in relation to privatisation. The benefits of decentralisation were judged to be mixed according to the capabilities and objectives of each local authority.

Introducing a commissioner or regulator scored favourably because, depending on the precise form, regulation presents a comparatively straight forward opportunity to introduce added oversight and an independent perspective on the sector. Integration also performed well because of the potential to streamline the sector and realise efficiencies, although

potential deliverability challenges were noted regarding any transfer of CMAL assets. This issue would need to be understood fully as part of a detailed assessment before proceeding.

Decentralisation scored poorly in the EY Evaluation because they felt there was the potential to further complicate an already complex sector. With the exception of divesting DML's non-core operations, which may have merit depending on Ministerial priorities, privatisation was viewed poorly because it would deprive Ministers of direct control over assets critical to delivering lifeline services.

Key Recommendations

Short-term Recommendations

- Engage local communities on their preferences for reform of the ferries sector

While structural decentralisation was not favoured in EY's assessment, key merits noted in their appraisal of the decentralisation options were the opportunity to improve transparency around the Tripartite's decision making processes and to develop policy that is more aligned with that of local authorities. Decentralisation was not deemed as essential in the effort to achieve this; however, regular engagement and consultation with local communities is likely to be. As a next step, Transport Scotland should consult with local communities to understand their views on the options for reform as set out in this report.

- Identify the optimal commercial arrangements for delivery of the CHFS3 contract

In addition to the range of regulatory models and corporate structures presented in the Project Neptune report, in completing the benchmarking exercise, a wide variety of contractual arrangements were noted. These related to the transfer of risk, the length of contracts and the means by which contracts were awarded (by Direct Award or competitive tender). The contractual arrangements complement the wider delivery model. Taken together these are the means by which the sector can successfully deliver against Ministerial priorities.

The current CHFS contract terminates in September 2024 and EY suggests that preparations for CHFS3 commence 18 to 24 months in advance of this date. Before this Transport Scotland should give consideration to the optimal commercial arrangements for CHFS3. To do this TS should seek maximum clarity from Ministers on their policy objectives for the ferries sector so that it can begin to formulate a coherent plan for how it will achieve these objectives via its commercial relationship with the operator and the overriding delivery model for the sector.

Medium-term Recommendations

- Undertake a full economic assessment of the impact of introducing a commissioner or regulator

EY's preliminary assessment of the long-list of options found strong grounds for considering in more detail the introduction of either a commissioner or regulator. A commissioner or regulator could provide greater independent oversight and would be consistent with trends observed in ferry operations overseas and in similar domestic sectors, such as rail. It should be understood if there is Ministerial appetite to introduce more independent oversight of the

sector and if so a full economic assessment of such a model should be undertaken. This exercise should include an exploration of the commissioner / regulator's remit.

- Complete a Business Case for the CMAL and CFL integration option

The preliminary assessment also found that the integration of CMAL and CFL could support Best Value by a) improving the efficiency of service delivery; and b) enhancing transparency via clearer roles and responsibilities. As a next step, it is recommended that TS undertake a fuller appraisal of this option via a Business Case exercise. This should support progression towards a preferred way forward for the future CHFS network.

Community Engagement

Ministers have asked Angus Campbell, former Leader of Comhairle nan Eilean Siar and the current Chair of the Ferries Community Board to lead engagement with local communities on Project Neptune to allow communities to provide input to the future direction of the governance and delivery of these lifeline ferry services. Angus has kindly shared the remit he has been given by the Minister in the letter enclosed within the meeting papers.

The Aims of engagement with island communities and Scope of the Consultation are reproduced below from the letter.

Aims:

- Seek and collate the views of communities on the future options set out within the Project Neptune report published on 8 September 2022.
- Highlight that this work will take time to deliver and require detailed consideration on the best model before a decision is taken
- Make it clear to stakeholders that their views are important, and we welcome their views on future arrangements,.
- Whilst this consultation is focused on Project Neptune next steps, any views expressed on other areas regarding ferry services may be recorded and passed on to the appropriate team within Transport Scotland to inform future consultation - in particular on the Island Connectivity Plan and the next CHFS contract.
- Production of a report outlining the outcomes from the consultation in order to help focus work. The target date for production of this report is end of February 2023 (although I would welcome your views on how achievable this is).

Scope of work:

- Local Communities are defined as Ferry Committee Groups in Clyde and Hebrides Ferry Network, and other appropriate locally based groups and individuals including young people.
- You will potentially have to rationalise the groups you engage with in the timeframe but would ask that you ensure you have a broad cross section in both geographic location and differing community interests.
- The output from this work will include analysis of meeting outputs, responses to written communications and any other relevant issues raised. This will be provided in a report to Scottish Ministers. This report will be published at a suitable point.
- Administration support will be provided by Transport Scotland officials which will include minute taking at meetings, venue and travel bookings.
- You are free to discuss all options within the published Project Neptune report, but should be mindful and clear to participants that Scottish Ministers have already ruled out taking forward options around unbundling or privatisation of routes.

- You are free to discuss interactions with other work streams within Ferries Unit, e.g. CHFS3, as long as you are clear that the remit of your engagement is Project Neptune.
- A suitable recording and analysis regime for all engagement activities should be agreed and will be supported by Transport Scotland officials.

Risk Register

RTS Delivery

Impact - Positive

Comment – Project Neptune offers a route to achieving greater subsidiarity in the delivery of ferry services instead of the centralised system that has evolved to date.

Policy

Impact - Positive

Comment – Greater accountability on ferry services should have a significant positive impact and will support other policy areas.

Financial

Impact – Positive

Budget line and value – No direct impact but the policies and priorities will provide a focus for future HITRANS Business Plans.

Equality

Impact – Neutral

Recommendation

1. Members are asked to note the report.

Report by: Ranald Robertson
Designation: Partnership Director
Date: 12th January 2023