

Report to Partnership Meeting 15 September 2023

RESEARCH AND STRATEGY DELIVERY

LOCAL AUTHORITY FERRIES - CAPITAL FUNDING CASE FOR CHANGE

Purpose of Report

This report provides Members with an update on work to set out the case for capital investment to support resilience on local authority operated lifeline ferry services.

Background

The local authorities which operate 'lifeline' ferry services (Shetland Islands, Orkney Islands, Highland, Argyll and Bute) have worked with partner Regional Transport Partnerships (HITRANS and ZetTrans) to develop this briefing paper. It sets out

- The current capital funding context.
- Future financial requirements for necessary investment in vessels and infrastructure.

A solution for revenue funding of the ferry services has progressed. This is a very welcome positive development. The key issue now is capital funding for new vessels and infrastructure given, in particular, the advanced age of the current ferry fleets.

Briefing Paper

Reference Economic Consultants were appointed by HITRANS to pull together information on the key issue of finding capital funding for new vessels and infrastructure. The Briefing Paper sets out the scale of the challenge and the urgency of the situation given the significantly older fleets operating local authority lifeline ferry services than those at the disposal of the operators of the Scottish Government's directly funded ferry service contracts.

Summary of Requirements

| Local Authority | Requirements and Estimated Capital Cost |
|------------------------|---|
| Orkney | Replacement of all existing vessels over time and related infrastructure upgrades. Cost based on CMAL estimates of £840m, which OIC believe may be an underestimate i.e. if all linkspan works are included the total could be £956m |
| Shetland | £60m to £120m (higher capital cost if Bluemull Sound is a fixed link rather than ferry replacement). The lower figure covers replacement of MV Hendra on the Whalsay route with upgrading of existing harbour and terminal infrastructure, plus new tonnage on Bluemull Sound. The higher figure is for replacement of MV Hendra on the Whalsay route with upgrading of existing harbour and terminal infrastructure, plus a fixed link between Unst and Yell |

| | |
|-----------------|---|
| Argyll and Bute | A new vessel on the Jura service, cascade of current Jura vessel to Luing service and introduction of new vessels or a light fixed link for Easdale. £25m - £50m (the upper bound if a CMAL-designed new vessel was built) |
| Highland | A new vessel on the Corran service and upgrade of slipways. £52m if a single new ferry, £70.5m if two new vessels were procured |

Potential Capital Funding Structure

There is scope for UK Government and Scottish Government to provide capital funding from either Levelling Up Fund and/or a new Objective One type arrangement that recognises the special circumstances of the Highlands and Islands in the UK context. If this was taken forward a possible model would be UK Government to provide 40% of the capital funding and Scottish Government to provide a further 60% of the capital funding.

In addition, redirection of funding from RET to local authorities would allow councils to use borrowing to help address current vessel replacement challenges. An approach similar to that used for schools investment is one possible mechanism.

RTS Delivery

Impact - Positive

Comment – Improving inter-island connectivity is a key priority within the RTS Delivery Plan

Policy

Impact - Positive

Comment – Transport Scotland are developing the Island Connectivity Plan and this is a useful input with respect to lifeline connectivity to a large number of island and peninsular communities.

Financial

Impact – Positive

Budget line and value – Budget for undertaking the study was identified within the 2023/24 Business Plan.

Equality

Impact – Positive

Comment – Enhancing inter-island connectivity is essential not just for developing the economic potential of our islands but also for ensuring that fragile communities continue to have access to different services and amenities that might not be available on their own island. In the case of these services emergency plans are already being developed in Orkney in the event of a vessel failure given the age of the fleet.

Recommendation

Members are invited to:

1. Note the draft report which is included with the papers.
2. Provide comment on content and any edits that should be made before this is published.

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