

Report to Partnership Meeting 6 February 2015

CONSULTATION

Review of Options for Ferry Freight Fares (Scottish Government Contracts)

PURPOSE OF REPORT

To allow consideration by Members of the proposed response prepared by officers following discussion with Transport Scotland's consultants working on the Review of Options for Ferry Freight Fares on the Clyde and Hebrides and Northern Isles ferry services contracts.

BACKGROUND

Transport Scotland commissioned SYSTRA, in association with Peter Brett Associates LLP (PBA), Pro Versa Limited and The Maritime Group International (TMG), to undertake research to (i) review current procedures and charging mechanisms for the setting of ferry fares for freight and (ii) propose and assess pricing options for the future.

The Transport Scotland's Ferries Plan 2013-2022 recognises the need to develop an overarching policy for freight fares. The aim of the review is to:

- deliver a new fare structure that is simple, transparent and does not advantage one part of the network over any other part; and
- balance the wellbeing of communities against the public sector cost.

Transport Scotland shared a consultation document with key consultees that was designed to help lead a discussion on future freight ferry fare policy. This identified a number of models that could be used for the establishment of a common and consistent freight fares policy. The criteria for assessment of the options reflect the outcomes of the Ferries Plan and create a framework for future freight fares policy on the Transport Scotland subsidised ferry services. The criteria for assessment were defined as:

- **Acceptability:** Acceptable to the freight industry, island business communities and the wider island community.
- **Affordability:** Affordable for the Scottish Government, by ensuring any change to the fares structure is sustainable going forward.
- **Consistency:** Fares are set in a consistent manner, i.e. in a way that involves applying the new fares regime, e.g. distance based or volume based, in a consistent and equal basis
- **Sustainability:** The level of fares supports the future sustainability of island local economies and communities.
- **Transparency and simplicity:** Simple for the directly subsidised ferry operators to put in place and operate and transparent so that users can easily understand how fares are set.

HITRANS MEETING WITH PBA ASSOCIATES

HITRANS officers met with Stephen Canning from PBA Associates on 18th December 2014 to discuss the consultation paper and the questions included within the document. A note of this meeting was produced by PBA Associated and this is reproduced as Appendix A to this report

with some edits included following discussion at the Partnership Advisors meeting on 22nd January. It is proposed that this updated version of the paper be submitted as HITRANS response to the consultation with Members invited to add any comments and edits to reflect the HITRANS position.

RECOMMENDATIONS

Members are asked to:

1. Suggest edits / changes to the HITRANS consultation response.
2. Approve the submission of the finalised response.

Risk	impact	Comment
RTS delivery	√	The RTS identifies fare ferry fares as an area that the Partnership should work to support and develop.
Policy	√	The review of fares is an action that has arisen from the Scottish Ferries Review / Plan and HITRANS input to this represents our ongoing role inputting and supporting the Plan.
Financial	√	No financial impact.
Equality	-	

Report by: Ranald Robertson
Designation: Partnership Director
Date: 28th January 2015

APPENDIX A

Options Paper Consultation Prepared by Stephen Canning PBA

HITRANS welcome the principle of achieving a consistent, transparent and simple approach to fare setting for freight. The information collated by Transport Scotland for the Review of Freight Fares has clearly illustrated the lack of consistency or rational underpinning the existing fare setting across both the Clyde and Hebrides (CHFS) and Northern Isles (NIFS) contracts.

HITRANS noted that, following the selection of a preferred in-principle option, further work will be required to develop the agreed formula for fares and the out-turn fares which would stem from this. There would also be a need to consider the impacts at the island level. This will need to include careful consideration of the economic impact that could result in implementing any change in fares at a local level. This focus should capture impact across sectors as well as by haulier and route. Industries in our island and peninsular communities are trading in difficult conditions and the impact of changes to ferry fares can be far reaching.

Consultation Questions 1-7, Fares Options

HITRANS officers noted that all options should be retained in final research report so as to provide transparency on what options were considered.

In terms of Option 5a (best fit function), HITRANS noted that it could reasonably be used as a consistent basis for tidying up the current anomalies in the fares system. However, they expressed concern at the lack of a rationale underpinning the current shape and position of the curve – the absence of any evidence for this may undermine its public credibility

In terms of Option 5b (fixed charge plus constant £/mile), HITRANS would not necessarily support this option given the particularly negative impact on long routes.

HITRANS would support Option 5c (fixed charge plus distance band £/mile) in principle but noted that there would need to be a series of iterative options to determine the precise formula under this option.

HITRANS explained that Option 5d (network wide £/mile) is consistent and offers benefits for a number of routes. However, they also acknowledge the severe negative impacts on the longer routes and note that a different solution would be required for these routes. However, they do acknowledge that there would be a significant revenue impact where there is a reduction on some routes and a different fares package adopted for routes where would otherwise be a fares increase.

Option 5g (route distance band £/mile) would be supported in principle by HITRANS but they did caution over the potential controversy which would arise over grouping routes within distance bandings. However, HITRANS did note that the option does appear intuitively sensible in that it reflects the different scale of operations on different routes.

HITRANS explained that Option 6a (network wide, £, flat fare) is not a practical option given the magnitude of changes in question.

HITRANS support Option 6d (route distance band, £, flat fare) in principle but again raised the potential issues which would surround the definition of the distance bands. Further work would be required on this.

Consultation Question 8: Do you think that the current definition and treatment of wide loads should continue?

HITRANS support the current definition and treatment of wide loads, although they also believe that significant benefits can be derived from demand management measures designed to incentivise wide loads onto quieter sailings.

Consultation Question 9: Do you think that there should or should not be weight related surcharges?

HITRANS do not support the implementation of weight related surcharges so long as a vehicle is within its plated weight. Where this is not the case, it should be refused carriage.

Consultation Question 10: Do you think that there should or should not be height related surcharges?

HITRANS do not support the concept of height related surcharges.

Consultation Question 11: Is there any case for a lower lane metre rate for a drop trailer and should the introduction of a transparent handling charge be considered?

HITRANS would support the introduction of a drop trailer service on appropriate routes. They note that it could be an effective capacity tool and could manage the deadweight issues faced on a number of the older and smaller ferries.

HITRANS would also support the introduction of a transparent drop trailer handling charge providing this does not significantly lessen the incentive to use drop trailers.

They also noted that the operational practicality of drop trailers would need to be considered in detail.

Consultation Question 12: Should Transport Scotland consider extending the scope of off peak and peak pricing to enable greater demand management?

HITRANS support demand management measures. However, they do not support peak pricing measures, instead preferring a combination of trough pricing, drop trailers, yield management and restrictions on certain sailings. Crucially, HITRANS noted that each route should be treated on its own merits – what works on one will not necessarily work on another. For example, on routes with infrequent sailings, trough pricing incentivising hauliers onto quiet sailings is not an option

Consultation Question 13: Do you think that a Bunker Adjustment Factor should or should not be considered further?

HITRANS do not support the implementation of a Bunker Adjustment Factor as they believe any fuel price increases would be passed on to the island communities and would potentially negatively impact on key industries in the islands.

Consultation Question 14: In principle do you think there is a case for continuing with TRS as currently applied?

HITRANS see TRS as causing a degree of inequality between islands and would support a more equitable across the board fares reduction, again providing this does not have specific negative effects on given islands.

Consultation Question 15: In principle do you think there is a case for continuing with the 10% overnight discount as currently applied on the Stornoway – Ullapool route?

HITRANS support this measure as an effective approach to demand management. A similar approach on other routes could be to offer a freight discount on quiet sailings which would give a measure of equality across the network as a dedicated freight service is the exception rather than the norm.

Consultation Question 16: In principle do you think there is a case for continuing with commodity related discounts as currently applied? If so which commodities should receive a discount?

HITRANS echoed the view of HIE that there is insufficient evidence as to the need for commodity related discounts. They explained that robust and defensible evidence on the need for these discounts needs to be provided if they are to be retained and / or extended.

Consultation Question 17: In principle do you think there is a case for a universal empty return discount, or should this only apply to certain sectors? If so which ones?

HITRANS noted that there would be significant revenue implications with this policy and arguably additional subsidy made available to fund it could be better spent on lowering the level of fares more generally.

They also noted that this policy could be confusing in terms of how an 'empty' is defined. In addition, it creates an incentive at the margin not to take small loads which would jeopardise the empty return discount. HITRANS see this as counter-intuitive.

Consultation Question 18: In your view what is the most appropriate way to define a commercial vehicle?

HITRANS have an official response to this question which they will provide by return.

Consultation Question 19: Should fares rise to reflect specific improvements to the network when they are introduced?

HITRANS note that they do not support this option as it is equivalent in nature to a bridge toll.

Consultation Question 20: Is there a case for the continuing provision of a loose parcel service on some routes but not others?

HITRANS note that this practice is likely more widespread than is officially recorded. They again explained that a clear evidence based case would be required if this policy is to continue and the costs involved would need to be considered to avoid a significant cost being built in to future contracts. By the same token a loose parcel service could be of particular value to islands with a smaller population whose freight needs might not fill a LGV / HGV to capacity.