

Report to Partnership Meeting 7 February 2020

CONSULTATION

RECC Ferry Procurement Inquiry

PURPOSE OF REPORT

To allow Members to consider and comment on the draft response prepared by officers to the Rural Economy and Connectivity Committee Inquiry into the Procurement of Vessels for Scotland's ferry services.

BACKGROUND

On 20 December 2019, the Scottish Government's Rural Economy and Connectivity Committee (RECC) launched an inquiry into the construction and procurement of ferry vessels in Scotland. The remit of the inquiry is to identify and address current and future challenges and opportunities in the procurement of new vessels to support Scotland's ferries network. Interested individuals and organisations were invited to submit evidence in writing by 7 February 2020.

The RECC will take into account the updated timetable and costs associated with the completion of two new hybrid ferries to serve the Clyde and Hebrides ferries network, set out in the Ferguson Marine Programme Review Board report, which was published by the Scottish Government on 18 December 2019. A copy of the report can be found on the Scottish government website <https://www.gov.scot/publications/ferguson-marine-report-on-cost-and-programme-for-vessels-801-and-802/>

During the inquiry, the RECC hopes to explore:

- the proposals and timetable for the completion of two new hybrid ferries to serve the Clyde and Hebrides ferries network and the associated costs;
- the related issue of the Scottish Government's proposal to assume public ownership of Ferguson Marine Engineering Ltd.;
- potential implications of this activity for future procurement of maritime vessels to meet the continuing needs of the Clyde and Hebrides ferries network; and
- the potential implications of matters related to this particular procurement process for the ongoing development and updating of the Scottish Government's Ferries Plan and Vessel Replacement and Deployment Programme.

The call for evidence sets out specific questions for consideration in relation to the scope of the enquiry as detailed above. HITRANS officers have drafted a response which is enclosed as Appendix A to this report. Members are invited to comment on this draft response and officers will update as necessary before submitting immediately after the meeting as the response deadline is 7 February 2020.

Risk Register

RTS Delivery

Impact - Positive

Comment – The HITRANS response sets out a position that aligns with the RTS.

Policy

Impact – Positive

Comment – If the Inquiry conclusions align with the HITRANS response there will be greater community, local and regional input to the future vessel replacement strategy.

Financial

Impact – Neutral

Equality

Impact – Positive

Comment – More empowered island communities will help shape ferry service delivery in a way that improves accessibility and better reflects the challenges faced by every section of our island communities.

RECOMMENDATION

1. Members are asked to note the report.
2. Members are asked to make comments and suggested edits to draft HITRANS response to the Call for Evidence.
3. Members are asked to delegate to the Director and Chair the final completion of the HITRANS response which will factor in suggestions made by Members at the meeting.

Report by: Ranald Robertson
Designation: Partnership Director
Date: 28th January 2020
Additional Paper: Appendix A – Draft HITRANS Response

Appendix A – HITRANS response to Rural Economy and Connectivity Committee Inquiry into construction and procurement of ferry vessels in Scotland

HITRANS thanks the Committee for the opportunity to respond to the Inquiry on construction and procurement of ferry vessels in Scotland.

HITRANS would underline that it is imperative that the Committee does not focus solely on events after award of the contract to Ferguson Marine Engineering Limited for the supply of vessel 801 (MV Glen Sannox) as the primary vessel on a 2 ferry service operating between Brodick and Ardrossan and vessel 802 (as the shared vessel on the two ferry services across the Little Minch serving the routes to Uist and Harris). As the Inquiry seeks to understand the implications of this order for future vessel replacement it is essential that the appropriateness of the two vessels is considered and contested and that the Committee forms a full appreciation of the level of community and stakeholder engagement that informed the decision making process of CMAL and Transport Scotland prior to tendering for these vessels and the order being placed with Ferguson Marine Engineering. HITRANS would in turn urge the Committee to investigate the effectiveness of decision making in respect of vessel deployment, replacement and infrastructure planning and whether a closed group of CMAL, Calmac Ferries Limited and Transport Scotland making decisions and policies in this respect is an appropriate way to secure lifeline services for island communities. HITRANS contend this is not an acceptable approach and we need to increase level of input communities have to the process and move decision making from the central belt to the Highlands and Islands.

Turning to the questions set out in the Call for Evidence HITRANS would offer the following input to the Inquiry.

1. What are your views on the conclusions and recommendations of the programme review board with respect to delivering the most effective delivery programme for the completion of the two vessels, MV Glen Sannox (vessel 801) and vessel 802?

That £100Million has been invested in two hulls one of which was launched in November 2017 with no final design for either vessel to be completed is almost unbelievable. Local stakeholders including HITRANS have in the past been given sight of plans and drawings by CMAL and the assumption that has been made as a result is that a detailed design was in place and work was taking place to deliver this. The findings in the turnaround director's report are hugely concerning and do not reflect well on Ferguson Marine in particular.

HITRANS would contend that CMAL should have required a final design to be in place and certainty of MCA approval of that design before any significant public resource was paid across under the contract.

Considering the report and information produced by Government in December 2019 it is concerning to note the degree to which Client and Contractor were unable to maintain a working relationship on this contract to supply lifeline assets.

The deterioration of both hulls is extremely concerning and there is a real fear in communities that neither hull will ever be satisfactory given the onset of rust and water ingress. Communities will need reassurance on the scope and scale of remedial action to resolve this and some direct engagement from Shipyard and CMAL before they can be reassured on the ability to deliver vessels that are fit for purpose. Until now there has been an absence of transparency with the islands which are being badly let down by the failure to deliver the capacity that was

promised by 2019 and the failure to inform these most important stakeholders applies to all parties to this contract.

2. What has been the impact of the repeated delays to completion of the contract to construct two hybrid ferries on the specific routes and island communities awaiting delivery and entry into service of these two vessels?

The impact is evident in the severe constraints on capacity across the network but in particular on the routes which should have had some increased capacity as a result of the deployment of these ferries.

The impact of the failure to deliver these ferries stretches across the network and this is amplified by the fact progress on ordering any other new vessels has been limited despite the fact that all forecasts have pointed to an urgent need for new vessels to Uist, Harris, Lewis (a freight ferry or second ferry), Arran, Islay and Mull.

Economic analysis is needed to quantify the impact of the failure to deliver these new vessels but the degree of capacity constraint across the network would suggest at least as many jobs have been denied by the inability to grow markets particularly tourism in the Western Isles and Arran as have been saved by keeping Ferguson Marine (Port Glasgow) open. Network wide it is likely that in tourism alone hundreds of job opportunities are lost and this number will grow each year.

In Uist analysis of accommodation availability in peak season shows that there are hotel beds not being taken up even in peak season as a direct consequence of the limitations imposed on the economy by inadequate ferry capacity whose capacity is so limited that people are unable to secure ferry bookings so therefore take their business elsewhere.

Equally important to quantifying the impact of the delay in delivering these two ferries there must be similar work to understand the impact of CMAL, Transport Scotland and CalMac imposing the wrong solution on the island communities concerned. We must ensure that a proper analysis is made that considers the economic impact that could have been achieved by delivering a dedicated ferry on each route across the Little Minch – from Uig to Lochmaddy and from Uig to Tarbert. This is the investment the island communities needed and it would have unlocked the potential of our islands to grow tourism, export food and drink without constraint, expand renewable energy benefits and deliver confidence to our islanders and prospective islanders that the islands would be open for business. Instead islanders in Uist and Harris are left unable to even make a day trip to Portree let alone Inverness and are unable to tap into the vast tourism market of Skye for day trip opportunities to Uist, Harris or Lewis.

3. What actions can be taken, in particular with respect to improved contract management processes, to ensure future contracts of this type are delivered a) on time; and b) on budget?

HITRANS would offer the following points in respect of contract management, procurement and budget:

- In respect to lessons that must be learned from the debacle that this contract has become the first would be to ensure that the correct contract / design is procured in the first place. The islanders themselves must be at the heart of this process and ferry services must be designed with the needs of the

islands they serve as the primary consideration and driver for the service itself.

- Those specifying contracts for ferry services should have a practical understanding of the challenges of island life and steps should be taken to ensure that people based on an island are charged with these decisions.
- The Design and Build Fixed Price approach looked good from a cost control perspective but this has clearly not worked. Therefore this approach needs to be reconsidered. Instead a specified Design should be in place for tendering and this should become a standard design. This standard design would then become a common standard or easily modified design across multiple routes. This design should recognise the draft restrictions that exist at multiple ports. If the design is to be developed in partnership with a Shipyard and Naval Architecture Practice this would point to a multi vessel order which would also provide best value in terms of cost to build new ferries.
- Better due diligence is needed in the tendering process to ensure that the successful tender goes to a shipyard capable of delivering it. Evidence to the Committee has already confirmed that workers at Ferguson Marine had concerns about the yard being capable of delivering a two ferry order. Why did those tendering the contract not understand this too?
- The contract should have included assurance that proper project management processes and appropriately qualified key personnel were named in the tender and the Shipyard would retain such personnel throughout delivery of the contract.
- In the event of a fixed price contract being agreed there should be an acceptance that risk transfers to the Shipyard and a failure to get cost estimates right should lead to liability resting with the Shipyard with the inevitable risk being administration of the yard.

4. What key challenges need to be addressed in procuring new vessels to support Scotland's ferry network and how might these be overcome?

It is a commonly held view across ferry dependent communities that poor choices have been taken on ferry procurement with the wrong vessels ordered by the tripartite Network Strategy Group made up of CMAL, Transport Scotland and Caledonian MacBrayne. Examples of this include but are not limited to the following points:

- In Lewis the communities and their stakeholders called for a 2 RoPax service with MV Isle of Lewis joined on the service by a second MV Hebrides sized ferry. This intervention at the time would have cost £25M to deliver. Instead the Tripartite ordered a single ferry MV Loch Seaforth and required a port investment that cost £90M.
- In Uist and Harris had the communities been engaged at all a second MV Hebrides was the obvious solution giving a ferry on each of the 2 routes across the Little Minch. Again a locally led plan would have solved the capacity constraint for £25M instead we have a ferry ordered to operate 2 routes that will cost at least £100M plus a £50M port investment and the ferry will arrive just in time for it to be at capacity based on the Tripartite Group's own VRDP forecast.
- Barra has benefitted from the displacement of MV Isle of Lewis however the vessel is unsuited for the 5 hour open sea crossing of the Minch with critical restrictions being her inability to operate in a wave height greater than 5 metres and a hull design that makes her inappropriate for the carriage of certain freight particularly hazardous goods. The consequence of the limitations of the vessel is frequent disruption throughout the winter including recent periods where the

island has been without a link to the mainland for 5 days or longer. A £25M MV Hebrides class of 90m to 100m vessel would be a much more suitable solution to Barra's ferry service needs.

- Lochboisdale shares the elderly MV Lord of the Isles with the service operated from Mallaig to Armadale, Skye with a service which has not been timetabled to meet trains and is impacted on in the winter with a key factor being access to the port infrastructure in Mallaig. A new dedicated 85 metre ferry for the Lochboisdale route could have been delivered for £20M. While Mallaig infrastructure remains a significant issue performance in poor weather could have been improved through modern design and thruster technology.
- Islay has a rapidly growing whisky industry that is on track to double production. The island is a very popular destination with international visitors. Instead of having to rely on 34 year old MV Hebridean Isles the island needs a new vessel to operate alongside MV Finlaggan. Again the cost could be £25M for a modern well designed 90 metre long vessel capable of operating from the existing infrastructure.
- Mull has capacity on the two secondary routes to the island but the primary route to Oban is the most constrained major vessel route on the network. For the 45 minute crossing the solution that community representatives have promoted is two new vessels of 80 metre scale that could operate from an upgraded terminal at Craignure with an island focused timetable achieved through overnight berthing of one of the ferries. The option two catamarans could be investigated for this route as the MV Alfred appears to offer appropriate capacity and on board facilities. The price for two such vessels from a UK shipyard could reasonably be forecasted £40M for both.
- Arran needed new capacity in 2014 when 801 (Glen Sannox) was ordered. Had a ferry of similar size to MV Hebrides been ordered for £25M the island would have been well served by two 90 – 100 metre ferries. There would not have been the need to replace the infrastructure to accommodate this solution. Instead we have a new ferry expected to cost over £100M and a forecast infrastructure spend of £65M.

The measures detailed above would have given Arran, Lewis, Harris, North Uist, South Uist, Barra, Mull and Islay the ferry services they need for a cost (if built in UK shipyards) of £185M. A huge number but a necessary one following decades of underinvestment by successive Governments. However when compared with the investment of £405M to introduce 3 ferries then it is evident that value for money has not been achieved by those tasked with safeguarding the future of our island communities as those responsible for taking decisions on investment in lifeline ferry services. We are left today with communities still depending on ferries which date from the 1980s and this would still be the case even with delivery of 801 and 802.

There is a strong case to challenge the prevailing orthodoxy that has been pursued in ferry policy in Scotland. We should look at international good practice. For island communities the opportunity to move to a structure where ferry crews live in the islands they serve rather than in hotels built on top of the ferry itself offers a real opportunity to deliver a positive impact on island population and increase the economic activity within communities. While changes to working practice must be taken forward carefully it is clear that there will be no overnight transition to a new fleet of vessels on all routes so incremental change as new vessels are build is completely feasible. It is entirely possible that a move to more frequent services with dedicated ferries to individual islands can mean smaller crew complements on each ferry but similar crew numbers across the network as the shift is completed.

5. How might the experience of the procurement and fulfilment of the current hybrid ferries contract inform the development of an updated Ferries Plan?

The use of the term hybrid ferries implies a significant step change in environmental performance and suggests there is an increased role in renewable energy. This is not in fact the case. These ferries are Dual Fossil Fuel ferries and by moving to this design we are simply continuing with current practice for the next 30 years rather than embracing a low carbon future. Other countries – notably Norway and Denmark – are pioneering the electrification of ferry services. Indeed in Denmark the recently introduced MV Ellen (the battery-electric ferry) has taken over from the diesel-powered MF Skjoldnæs to carry passengers and vehicles between Søby on Ærø island and Fynshav on Als island. Named Ellen, the electric ferry made its inaugural voyage on August 15 before going into service in September. Ellen has 59.5 x 12.8 m dimensions and a draft of 2.5 metre. She can sail up to 22 nautical miles, get up to 15.5 knots, carry about 30 vehicles and 200 passengers, and is expected to make up to seven return trips per day. The sailing distance compares favourably with a number of routes in Scotland and offers an interesting insight into the art of the possible for this truly transformational technology at a time when the climate is a primary concern

Turning to the issues that have emerged with the procurement of 801 and 802 it is clear that there are lessons that must be learned regarding need for greater community empowerment. The Committee's Inquiry is an important step in scrutinising why we have ended up with ferries ordered in 2014 that are unlikely to be fully in service much before summer 2023. Any understanding of what has gone wrong must include the process that informed the decision to place the order for these vessels in the first place and the absence of any engagement with the communities themselves or other key stakeholders within the Highlands and Islands

HITRANS would advocate for an Independent Review of Ferry Service Specification and Delivery led by a recognised expert in the field who can draw on experience and examples of international best practice. This process would be similar to that adopted by UK Government in the Williams Rail Review and should have at its heart a commitment to getting it right for Scotland's islands. The conclusions of this exercise should be used to inform the direction of travel for Scottish Government funded ferry services as they will then be set out in Ferries Plan 2. This new approach should be fast tracked into a vessel replacement plan.

6. What are the likely implications of the Scottish Government's decision to take Ferguson Marine Engineering Ltd. into public ownership for the fulfilment of the current contract and the award of future contracts for the construction of new ferries?

Starting with the commitment made by Government to complete both vessels this gives certainty to the Shipyard and workers. To a degree this gives some reassurance to island communities in that the ferries will eventually enter service. HITRANS does not have a view on whether the decision to complete this contract is right or not but it is clear that securing the ability to continue to construct ferries within Scotland offers an opportunity to continue what has in the past seen the successful delivery of a number of ferries including the highly regarded and often quoted example of good practice that is MV Hebrides which was built by Fergusons and entered service in 2000. The capability of Ferguson (Port Glasgow) to deliver high quality ferries up to 100 metre long should therefore not be in question if the right management and proper project management processes are in place.

The Government has made a commitment to the future of the Shipyard which should ensure it can play a role in future ferry building and delivering Government contracts. With proper investment particularly in its skilled workforce there is every opportunity that the Yard can compete for future orders including for CalMac and Northlink Ferries. However it is equally clear that the Yard was ill equipped for this order for two vessels at the same time so a multi vessel order would need to be sequenced one after another.

Investment in the yard and its facilities needs to continue meaning any profits will need to be reinvested in ensuring the Yard has comparable facilities with its international competitors. For example the ability to build vessels under cover to protect the workforce and the vessel assets from the weather is a clear gap on site in Ferguson (port Glasgow) today.

Evidence to the Committee has also noted the need for a partnership approach between the Shipyard and a Naval Architecture practice to ensure ferry design moves towards a production line approach of a successful hull design. Again HITRANS would contend that independent consideration of international best practice would point to such a sensible step in the future.

7. What impact is the United Kingdom's departure from the European Union likely to have on the future award of new ferry construction contracts, in particular as regards ongoing compliance with applicable rules on state aid and competitive tendering?

It is difficult to see a Brexit that does not retain rules around state aid and competitive tendering. However in the event that a Shipyard only delivered work on behalf of Government there might be scope for direct award. However that exposes a Shipyard to a heavy reliance on state funding and past experience has been that maintaining a consistent pipeline of new ferry orders has been beyond successive Governments therefore a significant step change in support to island areas would be needed for this to happen.