

# Transport Scotland's ferry services

## Impact report

AUDITOR GENERAL 

Prepared by Audit Scotland  
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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## **Summary of overall impact**

1. Transport Scotland has made initial progress in working towards the recommendations in our 2017 performance audit *Transport Scotland's ferry services*. Transport Scotland is committed to developing a Scotland-wide, long-term strategy for its network of subsidised ferries by 2022. Development of the strategy has been influenced by the need to take forward several inter-connected issues and projects.
2. Transport Scotland has made good progress in implementing our recommendations in other areas relating to ferries. These include improvements to the procurement and management of ferry contracts and helping to raise awareness of the roles of those involved in service delivery.
3. Our audit has generated a wide range of interest with the public and other stakeholders. Both download figures and Parliamentary activity indicate a high and continuing level of interest in Transport Scotland's ferry services.

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## Introduction

4. This report summarises the impact made by the Auditor General for Scotland's performance audit *Transport Scotland's ferry services* published in October 2017.

### Audit aims and objectives

5. The audit set out to assess whether investment in lifeline ferry services is providing value for money. Specific objectives were to determine:
  - whether there is clarity around the operation of subsidised ferry services, including the roles and responsibilities of the different bodies involved
  - how much is spent on subsidised ferry services, what this achieves and how Transport Scotland demonstrates that its expenditure is value for money
  - to what extent Transport Scotland's procurement arrangements for ferry services are appropriate and help to obtain best value
  - whether Transport Scotland has an evidence-based strategy for the long-term investment in ferry services and assets.

### Key messages from the 2017 report

6. In 2016/17, Transport Scotland spent £209.7 million on ferry services and assets. Spending on ferries increased by 115 per cent in real terms between 2007/08 and 2016/17. Over this period, the number of passengers travelling on Transport Scotland's subsidised routes increased by 0.3 per cent and car numbers increased by 16.8 per cent. Subsidies for the Clyde and Hebrides Ferry Service (CHFS) had increased by 185 per cent since 2007/08. This was mainly due to an increase in services, new vessels and the introduction of the Road Equivalent Tariff (RET). RET resulted in higher passenger and car traffic but its wider impact was mixed.
7. The audit found that Transport Scotland had made significant progress against the commitments in its Ferries Plan (2013-2022), but the plan and underpinning investment plans for vessels and harbours, was focused on the Clyde and Hebrides network. Transport Scotland did not have a Scotland-wide, long-term strategy which accounted for proposed developments to ferry operations. This meant the full extent of future spending requirements on ferries was unknown.
8. The operators of Transport Scotland's ferry contracts were performing well and, in 2016, about 99 per cent of sailings were on time. Ferry users were generally happy with services but there was variation across routes and some frustrations existed. We reported that Transport Scotland's arrangements for consulting and involving ferry users could be improved. At the time, Transport Scotland did not routinely measure the contribution that ferry services make to social and economic outcomes at a network level, which made it difficult to determine whether its spending is value for money.

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9. The CHFS contract started on time, in October 2016, despite delays and weaknesses in how Transport Scotland managed the procurement project. The audit also found that the chosen procurement method for the CHFS contract was new and the two bidders were not clear on what was expected of them. The bidders submitted over 800 queries during the tender process and there were delays in providing them with important information. Transport Scotland had previously treated ferry procurement exercises as individual projects rather than a programme. At the time of reporting, Transport Scotland was in the process of developing a more strategic approach for future procurements with the aim of improving planning, use of resources and knowledge transfer.
  10. Transport Scotland received one compliant bid for the new CHFS contract, which it awarded to CalMac at a cost of £868 million over eight years. CalMac's bid met the minimum quality requirements and was £128 million lower than Transport Scotland's estimate of the contract cost. Transport Scotland was not required to assess the 350 commitments in CalMac's bid, which made it difficult for it to demonstrate the added value of the new contract. Transport Scotland updated the contract before its start date to reflect, for example, planned timetable changes and this had increased the contract cost to £975 million. The audit found that contract management arrangements were still evolving and could be strengthened.

### **Key recommendations**

11. The audit made a number of recommendations based around Transport Scotland developing a Scotland-wide, long-term strategy for its network of subsidised ferries, as part of its Strategic Transport Projects Review. We recommended this should:
  - take into account progress already made against the Ferries Plan and proposed developments to its ferry operations
  - set out its intended benefits of subsidised ferry services, how these contribute to National Outcomes and how these will be measured, monitored and reported. It should then consider how this information could be used to inform operational and financial decisions and to demonstrate that ferry services are value for money
  - include an assessment of the long-term affordability of its spending on services and assets. This should take into account the level of service required, the condition of assets and the need for capital investment
  - set out how its spending will be prioritised across its network
  - be monitored regularly to ensure it is on time and on budget
  - be reviewed regularly to ensure it remains relevant and affordable
  - ensure that it has adequate resources to develop, monitor and report against its long-term ferries strategy

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- improve the transparency of decision-making for ferry users. This may include streamlining and formalising how it consults with and involves ferry users, by giving specific user groups a formal remit to comment on operational and policy matters
  - improve its approach to procuring ferry services. This should include:
    - ensuring that procurement teams include staff with procurement qualifications and experience of the ferry sector
    - applying lessons from previous procurement exercises
    - building in sufficient time to prepare important project documentation, such as business cases
    - ensuring that contract specifications are accurate, up to date and clear to potential bidders
    - providing bidders with clear, good-quality and timely data to allow them to make informed bids
  - strengthen its contract management arrangements by:
    - ensuring there is a sufficient number of people, with the right expertise, to effectively manage ferry contracts
    - involving the contract management team in ferry procurement exercises to inform its understanding of contract requirements.
12. We also recommended Transport Scotland, along with Caledonian Maritime Assets Limited (CMAL) and the ferry operators, should:
- better communicate their roles, responsibilities and accountabilities to improve customers' and stakeholders' understanding.
13. We anticipated the report would add value by: improving public understanding of ferry services in Scotland; providing assurance to the Scottish Parliament and the public that Transport Scotland has appropriate arrangements in place to manage ferry contracts efficiently and effectively and by highlighting good practice and lessons learned to help Transport Scotland improve the management, including future procurements, of ferry services.

## Transport Scotland's response to the report's recommendations

14. Humza Yousaf, Minister for Transport and the Islands at the time of publishing, welcomed the report and accepted its main recommendation by committing to produce a single long-term strategy in the context of the National Transport Strategy and the Strategic Transport Projects Review. He said "this will allow us to ensure effective co-ordination between ferries and other modes of transport. Details of the next Ferries Plan

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are currently being worked through, but it will be ready in advance of the conclusion of the current Plan in 2022".<sup>1</sup>

15. Roy Brannan, Chief Executive of Transport Scotland also welcomed the report in a written submission ahead of the Public Audit and Post-legislative Scrutiny Committee meeting in November 2017. He outlined Transport Scotland's continued priority to "ensure the ongoing provision of safe, efficient and reliable ferry services to the remote and island communities which rely on them, while delivering best value for money to the taxpayer".<sup>2</sup> He committed to taking a more strategic approach to procurement and, in particular, ensure lessons from the Clyde and Hebrides procurement exercise were taken into account in future, as well as keeping contract management arrangements, resourcing and engagement with ferry users under review.
16. Transport Scotland's actions to implement the recommendations, including our comments on the progress reported, are attached in the Appendix. We have not audited the responses to the recommendations, but in preparing this impact report we met with representatives from Transport Scotland to discuss progress and current developments affecting subsidised ferry services.
17. Transport Scotland has made initial progress against the recommendations in our 2017 performance audit. It is committed to developing a Scotland-wide, long-term strategy for its network of subsidised ferry services by 2022. The timetable for developing the long-term strategy has been influenced by the need to take forward a number of interconnected issues and projects, including:
  - the need to update existing strategies and plans, such as the National Transport Strategy and Strategic Transport Projects Review, and to produce the first National Islands Plan
  - the development of outcomes and indicators for ferries which align with those in the Scottish Government's revised National Performance Framework
  - ongoing work to restructure the Ferries Unit and wider Directorate to ensure roles are fit for purpose and functions are better resourced.
18. While we welcome that progress is being made in developing the long-term strategy, its finalisation is still some way off. Establishing the strategy is vital in order to support the assessment of proposed developments, future spending requirements and long-term affordability of ferry services and assets. Transport Scotland needs to prioritise its efforts in this area and continue to monitor the progress being made.
19. Transport Scotland has made good progress in implementing our recommendations in other areas relating to ferries. These include:

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<sup>1</sup> <https://www.transport.gov.scot/news/audit-scotland-report-on-ferries/>

<sup>2</sup> [https://www.parliament.scot/S5\\_Public\\_Audit/General%20Documents/Transport\\_Scotland\\_-\\_written\\_submission.pdf](https://www.parliament.scot/S5_Public_Audit/General%20Documents/Transport_Scotland_-_written_submission.pdf)

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- the development of a new procurement approach for the current Northern Isles Ferries Service tendering exercise which increases the emphasis given to the quality of proposed services in the assessment of tenders
  - the addition of three new posts to increase capacity for managing ferry contracts
  - joint work with CMAL and ferry operators to raise awareness of their respective roles with ferry users and local communities.
20. Many of the actions being taken in response to our recommendations are ongoing or long-term in nature and will take time to demonstrate impact. It is important that Transport Scotland keeps the impact of the actions it is taking under review.

#### **Update on other key issues affecting Transport Scotland's subsidised ferry services**

21. The 2017 audit identified a number of developments that were likely to have implications for Transport Scotland's capital and revenue expenditure. We have provided an update on key developments below:
- In 2014, the Scottish Government committed to the principle of 'fair funding' for Orkney and Shetland councils' inter-island ferry services. 'Fair funding' will require substantial capital investment plus annual funding to cover operational costs. Transport Scotland continues to discuss this issue with the island councils. In the interim, the 2018/19 and 2019/20 budgets included annual funding of £10.5 million to internal ferry services in Orkney and Shetland. Any future budgetary implications are likely to be considered as part of this year's spending review.
  - In 2016, the Scottish Government committed to reduce fares to the Northern Isles in response to the RET being introduced on CHFS routes. Transport Scotland planned to implement reduced passenger and car fares on the commercially operated service across the Pentland Firth from 2018 but this has been delayed due to a complaint to the European Commission about the Scottish Government's proposals to reduce fares. Transport Scotland is unable to fully progress the introduction of reduced fares on the Northern Isles network until a decision on the complaint is made by the European Commission. In the interim, fares for passengers and cars were reduced by 20 per cent for travel to and from Aberdeen and Lerwick.
  - The operating lease for the three passenger vessels used on the Northern Isles Ferry Service (NIFS) routes ended in 2018. Transport Scotland provided loan funding to CMAL to purchase the vessels. Transport Scotland also loaned money to CMAL to purchase two freight vessels in March 2019, bringing the entire fleet currently used on the NIFS routes under CMAL ownership. Both decisions are expected to create savings in revenue expenditure.
  - When we last reported in 2017, Transport Scotland was in the process of reviewing and discussing freight fare options, with the aim of introducing a consistent fare structure across the network. Transport Scotland has made limited progress on this issue because there is little appetite from service users to remove discounts and

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increase the price of some fares. It is currently exploring further options but is awaiting the outcome of the complaint in relation to reducing Northern Isles passenger and car fares referred to above before deciding on next steps.

- We noted several issues for Transport Scotland to consider in its tender of the new Gourock-Dunoon contract in our 2017 audit. Ministers cancelled the tendering exercise in December 2018 and transferred responsibility for service provision to CalMac under the existing CHFS contract. Transport Scotland is currently prioritising upgrading harbour infrastructure and investing in existing vessels to improve reliability on the route. CMAL has spent £3 million to date on remedial works at Gourock port and is in discussions with Transport Scotland around requirements for major renovation works linked to asset life which will take around five years to complete. Transport Scotland is also working with CalMac and CMAL to consider replacement vessels as part of an integrated project including harbour infrastructure. The current CalMac contract will be revisited for procurement in 2022 and renewed in 2024.

#### **Additional key issues since we reported in 2017**

22. The construction of two new passenger vessels for the CHFS network, which were due to be delivered in summer 2019 and spring 2020 respectively, has been delayed. Manufacturer Ferguson Marine Engineering Ltd (FMEL) submitted a formal contract price increase claim in December 2018 but this was refuted by CMAL. The contractual dispute is focused around alleged post-contract design changes and who should cover the cost of these. Transport Scotland is monitoring the situation closely. Ministers are currently awaiting an update on the likely costs to complete the vessels and a revised delivery timetable. In August 2019, following FMEL entering administration, the Scottish Government announced its intention to take the shipyard into public control. Audit Scotland will continue to monitor developments in this area.
23. Transport Scotland has been making financial contributions aimed at reducing the CalMac pension scheme deficit since 2012. A pension scheme valuation in 2015 found that the deficit had increased to £41.9 million. To help reduce the deficit, Transport Scotland agreed to increase its contribution to £3.4 million a year between April 2015 and April 2024. Increases to the employer contribution rate were also introduced. The latest triennial review of the fund, in 2018, estimated the deficit had reduced to £26 million. As a result, the fund trustees and the participating employers (CMAL and David MacBrayne Ltd) agreed that the current rate of contributions should continue until the recovery plan is complete and the deficit is paid off by 2024.

## Raising awareness and communication of key messages

### Media coverage

24. The report attracted reasonable media coverage following publication. It featured in a range of print media titles, including *The Herald*, *The Times* and *Sunday Post*. The report also featured in an article on the BBC news website and on local radio stations. Much of the interest came from local media outlets in Oban and Shetland in the weeks and months following publication.
25. Media coverage and report downloads in the 18 months since publication from Audit Scotland's website are summarised below:

Media items/downloads	Number of items: 18 months after publication
National press	17
Local press	49
Television	9
Radio	27
Specialist press	4
<b>TOTAL MEDIA ITEMS</b>	<b>106</b>
Report downloads	3,468
Report supplement	1,305
Podcast downloads	96
Tableau views	558
<b>TOTAL DOWNLOADS</b>	<b>5,427</b>

26. Media coverage reflected our key messages well. Media outlets focused on a range of local issues, for instance NorthLink in Orkney and Shetland and CalMac in the Western Isles. The *Financial Times* and BBC News followed up with inquiries relating to CalMac pensions and the impact of the RET during busy summer months.
27. Download figures indicate a high and continuing level of interest in Transport Scotland's ferry services. Alongside the report, we also produced a supplement on ferry user's views based on ten community visits which informed our judgements in the main report. We also used Tableau interactive graphics to illustrate passenger and vehicle numbers for ferry routes, as well as punctuality and reliability rates. Usage and download figures show a good level of interest in these supplementary resources.

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## **Presentations by the audit team**

28. The audit team presented key messages and recommendations to representative ferry users on each of Transport Scotland's three main ferry contract routes: Clyde and Hebrides, Northern Isles and Gourock-Dunoon. Each presentation included a discussion with ferry users about the content of the audit and what they would like to see happen as a result of the report.

## **Parliamentary consideration**

29. The Scottish Parliament's Public Audit and Post-legislative Scrutiny Committee considered the report on 23 November 2017. The discussion was wide ranging and covered a number of areas highlighted in the report such as long-term financial planning and management, the economic and social impact of RET, CalMac pension scheme deficit and ferry contract procurement. The Committee held a subsequent evidence session with Transport Scotland on 1 February 2018, after which it wrote to the Minister for Transport and the Islands seeking further information on the CalMac pension scheme deficit.
30. The Rural Economy and Connectivity Committee focused its 2018 pre-budget scrutiny on the investment required to support CHFS. Audit Scotland responded to the committee's call for evidence highlighting relevant issues from the 2017 report. The Committee wrote to the Cabinet Secretary for Transport, Infrastructure and Connectivity in October 2018, recommending the Scottish Government "prioritise ferries investment with a focus on procuring new vessels to reduce the average age across the fleet and improve service reliability."<sup>3</sup> Many of the issues raised by the Committee were consistent with our findings, including the lack of clarity over long-term investment in harbour improvements, the need to improve arrangements for user engagement, and the need for plans to reflect the cost implications of ferry decisions to ensure long-term service resilience.
31. The response from the Minister for Energy, Connectivity and the Islands in December 2018 notes a commitment in the draft Budget to continue to provide support for subsidised ferry services, the construction of two new vessels, and a further £4 million to address vessel reliability and resilience. He also highlighted an increase in funding for ports and harbours as well as outlining commitments to ensure value for money and work underway to establish a long-term ferries strategy.<sup>4</sup>

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<sup>3</sup> [https://www.parliament.scot/S5\\_Rural/20181031\\_REC\\_Committee\\_to\\_Cab\\_Sec\\_TIC\\_-\\_Budget\\_letter.pdf](https://www.parliament.scot/S5_Rural/20181031_REC_Committee_to_Cab_Sec_TIC_-_Budget_letter.pdf)

<sup>4</sup> [https://www.parliament.scot/S5\\_Rural/20181220\\_Min\\_ECI\\_-\\_response\\_to\\_pre-budget\\_scrutiny.pdf](https://www.parliament.scot/S5_Rural/20181220_Min_ECI_-_response_to_pre-budget_scrutiny.pdf)

## Appendix.

### Progress on implementing the recommendations made in Transport Scotland's ferry services

This section provides responses to each of the recommendations from the 2017 Audit Scotland report.

	Recommendation	Response	Audit Scotland comment
	Transport Scotland should:		
1	Develop a Scotland-wide, long-term strategy for its network of subsidised ferries, as part of its Strategic Transport Projects Review. This should:	<p>Transport Scotland is committed to developing a Scotland-wide long-term strategy for ferries. The overarching Scotland-wide strategy is expected to replace the current Ferries Plan (2013-2022) by 2022. Progress and timescales for developing the strategy are dependent on actions in other connected areas, such as:</p> <ul style="list-style-type: none"><li>• Updates to wider plans and strategies. Transport Scotland is in the process of updating existing strategies and plans, including The National Transport Strategy (NTS 2) and the Strategic Transport Projects Review. The Scottish Government is also in the process of producing the first National Islands Plan.</li><li>• Alignment with National Outcomes. Transport Scotland is currently developing its approach so that outcomes and indicators in the National Transport Strategy and subsequent long-term ferries strategy will align with those in the Scottish Government's revised National Performance Framework. More details are provided below.</li></ul>	We welcome the actions Transport Scotland is taking to work towards a Scotland-wide, long-term strategy. In establishing the strategy, it is vital that proposed developments to services and assets and the full extent of future spending requirements are taken into account. There are a lot of interdependencies with the approach being taken and it is important that early progress continues to build momentum so that the strategy can be implemented in time for 2022.

	<ul style="list-style-type: none"> <li>Ongoing work to restructure the Directorate. Transport Scotland has reviewed staff resources to ensure roles within the Directorate and Ferries Unit are fit for purpose. This has resulted in the creation of eight new posts within the Ferries Unit. Subsequent changes within teams and an ongoing recruitment process have impacted on progress to develop the long-term strategy and associated plans.</li> </ul> <p>Transport Scotland has started work on a scoping paper for the long-term strategy. This is planned to provide a high-level framework for the strategy, covering a variety of areas such as stakeholder engagement, investment planning, governance processes, and programme and project management. The scoping paper is expected to be provided to Ministers in July and to the Islands Transport Forum in August. Once it has been signed off, the plan will progress into the development stage.</p>	
	<ul style="list-style-type: none"> <li>take into account progress already made against the Ferries Plan and proposed developments to its ferry operations</li> </ul> <p>The latest Ferries Plan delivery tracker shows good progress being made against the actions in the Ferries Plan (2013-2022).</p> <p>A number of actions for routes and services, and funding and procurement remain amber due to a variety of reasons including:</p> <ul style="list-style-type: none"> <li>the ongoing construction of new vessels</li> <li>ongoing discussions with community groups and stakeholders</li> <li>dependencies on new physical infrastructure</li> <li>the impact of competing priorities across the Scottish Government on the availability of capital budget to support investment.</li> </ul> <p>Any outstanding actions from the current Ferries Plan that are not complete by 2022 will be reviewed as part of the</p>	<p>The Ferries Plan delivery tracker shows good progress against commitments in the Ferries Plan (2013-2022) to July 2019.</p> <p>Transport Scotland should review the Ferries Plan delivery tracker on a regular basis (eg, each quarter) so that it can effectively monitor progress on specific issues and ensure its response remains relevant and timely.</p> <p>The Ferries Plan (2013-2022) and actions to underpin the delivery of commitments are still primarily focussed on the Clyde and Hebrides network. A Scotland-wide plan is therefore necessary to focus on the whole network of Transport Scotland's subsidised ferry</p>

	<p>development of the new long-term strategy. Transport Scotland plans to support commitments in the new Ferries Plan with an updated delivery tracker and demand/capacity analysis as utilised in the Vessel Replacement and Deployment Plan (VRDP).</p> <p>Transport Scotland plans to publish an account of the implementation of the current Ferries Plan as part of the early work on the next Plan.</p>	services.	
	<ul style="list-style-type: none"> <li>set out its intended benefits of subsidised ferry services, how these contribute to National Outcomes and how these will be measured, monitored and reported. It should then consider how this information could be used to inform operational and financial decisions and to demonstrate that ferry services are value for money</li> </ul>	<p>Transport Scotland is developing its approach to measuring the contribution of subsidised ferries to outcomes in the revised National Performance Framework. It plans to do this by developing a monitoring framework to align with the rest of the Scottish Transport system, through the National Transport Strategy (NTS 2). The current draft of NTS 2 is built around four core themes and 12 outcomes. NTS 2 and its monitoring framework will be finalised towards the end of 2019. Following publication, Transport Scotland will undertake additional work to establish specific indicators for ferry services which will be supported by a ferries monitoring framework, in line with the overarching transport monitoring framework and NTS 2.</p>	<p>There are positive areas of progress in measuring the benefits of subsidised ferry services. It is important that Transport Scotland establishes indicators that will allow it to monitor effectively the performance of ferry services.</p> <p>Transport Scotland should ensure it uses this information to inform operational and financial spending decisions with a clear understanding of the expected impact they will have on performance and outcomes. Going forward, regular monitoring and transparent reporting on progress will be vital to inform budget considerations. Additional resources within the Ferries Unit will help to support these requirements.</p>
	<ul style="list-style-type: none"> <li>include an assessment of the long-term affordability of its spending on services and assets. This should take into account the level of service required, the condition</li> </ul>	<p>Transport Scotland plans to undertake baseline and scenario modelling to assess the long-term affordability of its current and planned spending on services and assets. Baseline information is due to be reviewed following the completion of the NIFS tender. This work will inform Transport Scotland's assessment of long-term affordability on its spending on services and assets.</p>	<p>This is an ongoing area of development. It is important that the assessment of long-term affordability reflects the level of service required, the condition of assets and the need for capital investment. This should be progressed as a matter of priority.</p>

	of assets and the need for capital investment		
	<ul style="list-style-type: none"> <li>set out how its spending will be prioritised across its network</li> </ul>	Transport Scotland plans to carry out work to show prioritisation of spend across the whole ferries network in 2020. This will be incorporated into its Scotland-wide long-term strategy.	We welcome developments in these areas. Regular monitoring and reviews of the long-term strategy will be vital to ensure it remains relevant and is achieved within budget.
	<ul style="list-style-type: none"> <li>be monitored regularly to ensure it is on time and on budget</li> </ul>	Transport Scotland will ensure regular monitoring of the long-term strategy, which will be supported by a monitoring plan. This will be carried out in conjunction with the annual budget monitoring process.	
	<ul style="list-style-type: none"> <li>be reviewed regularly to ensure it remains relevant and affordable.</li> </ul>	Transport Scotland recognises the need to consider the frequency of reviews of the long-term strategy set out in the next Ferries Plan and will develop a review plan specifically for this purpose from 2022 onwards. Reviews will be aligned to the annual budget cycle to ensure actions remain relevant and are delivered within budget.	
2	Ensure that it has adequate resources to develop, monitor and report against its long-term ferries strategy.	Transport Scotland has recently undertaken work to restructure the Directorate and review resources to ensure roles are fit for purpose. This has resulted in a round of recruitment and a net increase of eight new roles in the Ferries Unit. The recruitment process is currently ongoing, but Transport Scotland expects new posts to be filled by autumn 2019.	This is an area of ongoing activity. Additional resource should help free up capacity within the Ferries Unit to develop, monitor and report against its long-term ferries strategy.
3	Improve the transparency of decision-making for ferry users. This may include streamlining and formalising how it consults with and involves ferry users, by giving specific user groups a formal remit to comment on operational and policy matters.	<p>Transport Scotland is working to improve decision-making for ferry users by: continuing to engage with the Community Board; mapping out the process with stakeholders and consulting with operators; improving communication about timetable changes and using a decision matrix developed by CalMac Ferries to improve transparency of operational decision making.</p> <p>Transport Scotland also report that an internal review has led to more robust decision making for ferry users.</p>	It is important that Transport Scotland continues to undertake work to improve the involvement of ferry users in decision making.

4	<p>Improve its approach to procuring ferry services. This should include:</p> <ul style="list-style-type: none"> <li>• ensuring that procurement teams include staff with procurement qualifications and experience of the ferry sector</li> </ul>		
	<ul style="list-style-type: none"> <li>• applying lessons from previous procurement exercises</li> </ul>	<p>Transport Scotland recruited two procurement specialists into the project team in 2018 to manage and deliver the ongoing NIFS procurement. One of the posts was replaced in January 2019.</p> <p>All staff in the procurement team received procurement training in advance of the NIFS procurement exercise.</p>	<p>We welcome the actions being taken in this area. It is important that Transport Scotland continues to ensure that adequate staff resources are in place and that any learning is applied to new procurement exercises.</p>
	<ul style="list-style-type: none"> <li>• building in sufficient time to prepare important project documentation, such as business cases</li> </ul>	<p>Transport Scotland has applied a different procurement methodology for the ongoing NIFS tendering process. This is based on the Most Economically Advantageous Tender (MEAT) ratio of 35 (quality):65 (price). The previous NIFS procurement was based on a quality/price ratio of 10 (quality): 90 (price). Although this ratio created lower costs, it was at the sacrifice of service quality. Reducing quality to the lowest possible level to operate the service is now at odds with the Scottish Government's policies for a fairer and wealthier Scotland. The new methodology has therefore been applied to deliver optimum value for money and ensure that quality services are being delivered (in line with other recent associated ferry procurements).</p>	
	<ul style="list-style-type: none"> <li>• ensuring that contract specifications are accurate, up to date and clear to potential bidders</li> </ul>	<p>The business case and approval of the investment decision making for the NIFS procurement exercise have been secured on time. The new contract is planned to be in operation from 31 October 2019 depending on the outcome of the European Commission decision regarding the introduction of reduced fares on the network.</p>	

	<ul style="list-style-type: none"> <li>providing bidders with clear, good-quality and timely data to allow them to make informed bids.</li> </ul>	received. Key issues raised by tenderers relate to the condition and location of assets, IT (hardware, software, licences and location), vessel and equipment maintenance regimes, sales revenue by route and type, and employee pension scheme.	
5	Strengthen its contract management arrangements by:		
	<ul style="list-style-type: none"> <li>ensuring there is a sufficient number of people, with the right expertise, to effectively manage ferry contracts</li> </ul>	Transport Scotland has created an additional three full-time equivalent posts since the issue was first raised by Audit Scotland. The contract management team is currently at capacity, but Transport Scotland continues to review resourcing and recruitment on an ongoing basis.	We welcome the recruitment of additional staff to manage ferry contracts and the involvement of the contract management team in the NIFS procurement exercise.  It is important that Transport Scotland continues to take steps to strengthen its contract management arrangements.
	<ul style="list-style-type: none"> <li>involving the contract management team in ferry procurement exercises to inform its understanding of contract requirements.</li> </ul>	The contract management team are part of the project board and bid evaluation teams for the ongoing NIFS procurement exercise. The team also received specific procurement training in advance of the ongoing NIFS exercise.	
6	Transport Scotland, Caledonian Maritime Assets Limited (CMAL) and the ferry operators should better communicate their roles, responsibilities and accountabilities to improve customers' and stakeholders' understanding.	Joint work between Transport Scotland, CMAL and the ferry operators to raise awareness of their roles is ongoing and engagement with the Communities Board and ferry stakeholder groups takes place on an ongoing basis.	This is an area of ongoing activity. We encourage continued joint work between Transport Scotland, CMAL and the ferry operators to improve customer's and stakeholder's understanding of their roles, responsibilities and accountabilities.