

## **Clyde and Hebrides Ferry Service Contract – Statement – 16 November 2023**

### **Fiona Hyslop MSP, Minister for Transport**

Presiding Officer, I am grateful for the opportunity to make a statement today on the delivery of the next Clyde and Hebrides Ferry Services (CHFS) contract, which is one of the biggest contracts this Government oversees.

I am acutely aware of the importance of these lifeline services for our Island communities and am committed to delivering an appropriate replacement for the contract which is due to expire at the end of September 2024.

I recognise that the resilience and reliability of these services has been subject to a great deal of scrutiny, both within this building and, crucially, by the communities they serve.

The next CHFS contract is vital to our efforts to drive improvements across the network, and therefore we must carefully consider the optimum model, hence the time taken to arrive at this decision.

I was struck by a comment from the Chair of the Ferries Community Board who in evidence to the Parliament's Net Zero, Energy and Transport Committee's Inquiry whose Report we debated last week said:

"One thing that we have to break from is having an operator being told to just do a timetable. That results in no recognition of need or of what the service should be. It stops flexibility..."

That concept of flexibility must be key to any future process, ensuring that we can tailor service levels to effectively respond to community needs.

As I highlighted in the debate last week, this Government has no plans to unbundle or split up the network.

We have considered two options for contractual arrangements to ensure continued operation of these services. Either a direct award to the current operator, in what is known as a "Teckal arrangement" in accordance with the Public Contracts (Scotland) Regulations 2015, or a competitive tender on the open market.

Having considered the benefits and risks of each I wanted to update Parliament on Scottish Government Ministers' preferred way forward, which is to explore a direct award.

I want to be clear that, before any final decision is taken, a due diligence process will establish the feasibility of that approach from a financial, operational and legal perspective.

In terms of value and importance to our island communities this is one of the most significant contracts this Government will enter into, and it is vital that we get it right. As I have said, there are a number of complex issues to be resolved before committing to a final decision, including subsidy control, individual entity status and associated accounting requirements.

However, I can assure the Chamber these will be examined via a thorough due diligence exercise supported by specialist advisers, which I expect to be completed to allow a final decision to be made by next summer. Central to that process Ministers will seek assurance that a direct award would offer a value for money solution.

Subject to a satisfactory outcome we would then commence the necessary steps to facilitate a direct award. Should that process result in a decision not to proceed with a direct award, then we would revert to a competitive tendering process on the open market.

In the meantime, I would like to assure our island communities that I will continue to listen to those who have rightly asked for improved resilience; greater transparency; better communications; responsiveness and sensible flexibility in service; and more certainty for communities, service-users and staff.

We will continue to engage with all of our communities and stakeholders to inform the development of the new contract to ensure that, regardless of the ultimate procurement route, we capture the improvements that we all want to see.

I understand community expectations for this service, and I want to be absolutely clear - if we ultimately decide on a direct award then, under no circumstances, would that simply mean business as usual.

Going down a direct award route would help change the ethos of the service by shifting the focus from a commercial arrangement to a model more focused on the delivery of a public service; this would help create a more agile approach to drive service improvements that we all want to see. Not least, we are determined to improve communication with communities, and will be looking to introduce meaningful Performance Indicators that better reflect their experience of using the service.

We would aim to have the new arrangement in place by 1<sup>st</sup> October next year, meaning that we could start to see benefits for our communities as early as possible.

In addition to better operational communication, a direct award would provide us with the opportunity to consider adding CalMac as a relevant Authority under the Islands (Scotland) 2018 Act, strengthening the ability of communities to feed into Impact Assessments to inform proposed future changes.

Presiding Officer, I recognise that we cannot rely solely on the contract procurement route as the mechanism for driving improvement.

That is why it is only one aspect among a number of measures this Government is taking to improve CHFS services for islanders and visitors alike.

The Contract Award preferred route sits alongside the Island Connectivity Plan, the Fair Fares Review and the Future of Governance.

We are working to introduce a range of policy measures alongside significant investment in new vessels and infrastructure.

We will continue to progress the Islands Connectivity Plan, with two key documents due for public consultation later this year – a draft Strategic Paper on wider connectivity issues; and a draft Long-term Plan for Vessels and Ports updating the paper published last year.

Our Fair Fares Review will also report shortly, and following the success of the Road Equivalent Tariff, we want to consider fares policy in a way that is affordable and sustainable for both ferry users and Government.

On Governance and following the Project Neptune report on options for change we have spoken extensively to island communities and stakeholders and it is clear they want a structure that is more transparent, accountable and customer-focused.

A direct award should be supported by governance that best supports our goals for the service. This must be reflective of the culture and ethos needed for running a public service.

I know there have been calls for mergers and I am conscious that reform can be unsettling for staff. Change needs to happen to improve accountability and transparency and will happen but form must follow function.

I can confirm today that I am not taking any immediate decision at this time on the merger of bodies or governance. I want organisations to focus on delivery of the new contract and the operation to bring the various large vessels into service from next year and the new small vessel replacement work. Of course any findings or impact of the due diligence exercise should the final decision be a direct award may also impact on decisions on governance structures.

I can provide assurance that we will work with the relevant organisations, trades unions, and other stakeholders to identify the optimum final governance arrangements.

As Minister, I have had a unique opportunity to engage with a wide range of stakeholders and listen to their experiences from this ferry service.

While one of the key recommendations from the Net Zero, Energy and Transport Committee was in favour of a direct award, I recognise that others may prefer a competitive tender.

I know that a direct award might not be welcomed by every community, and that we will be judged on the improvement that can be delivered. Again, I want to reiterate the status quo of current service levels is not an option. I expect a direct award to be a catalyst for change, leading to a more efficient, flexible model in the delivery of this public service.

Alongside the construction of new vessels and infrastructure I also, crucially, wish to see a new management culture emerging - one that is more supportive of the communities, customers and passengers served by the network, provides greater transparency in communications, and which strives for continual improvement through an innovative and responsive approach.

Regardless of the ultimate procurement route, the next CHFS contract will not be developed in isolation. I will continue to speak to communities and stakeholders to ensure we have a service that is delivering for them.

My Transport Scotland officials will also be holding a series of engagement events later this month on Arran, Mull, Islay, Skye and Lewis; followed by a public consultation commencing in December. Further engagement is also planned over the coming months and I would encourage everyone with an interest to help us shape the future of these vital services.

In addition, consultation will be undertaken on the Islands Connectivity Plan, providing the opportunity for communities and stakeholders to also comment on those proposals.

In relation to the wider network, I am aware that the Northern Isles Ferry Services contract is due to expire in 2028. Those services are different in nature to CHFS and, as such, I can confirm that our current intention is for the next generation of that contract to be procured via the open market.

Finally, I would like to conclude by thanking those, especially the communities, who continue to inform our plans for the future of CHFS.

I hope the Chamber can agree that, taken alongside the other initiatives I have outlined this afternoon, Government Ministers' preferred approach of a direct award would provide us with greater flexibility to drive improvement for the benefit of our island communities.