

Gourock-Dunoon Ferry Service Future Contract

Vessels

Background

1. A paper discussed at the 30 June 2014 meeting (GDSG/14/1/3) considered the vessel options open to Ministers under the relevant EU legislation and guidelines. The Steering Group discussed the paper but did not reach a conclusion on this question. Transport Scotland undertook to consider a further option, namely that Scottish Government would make vehicle-passenger vessels available to all potential operators but bidders would be free to bring their own vessels; in particular any operator wishing to bid using passenger-only vessels would be required to bring their own vessel solutions, whether owned or chartered.

2. An update paper was discussed at the 27 October 2014 meeting (GDSG/14/2/2). This paper concluded that, on the face of it, there would be nothing to prevent the Scottish Government offering to build and charter, on a commercial basis, a vehicle-passenger vessel as one of the options, provided that:

- the procurement exercise for the ferry services contract remained open to operators providing their own passenger-only or vehicle-passenger vessels, and
- the bids were all evaluated on a transparent and fair basis as regards the passenger element only.

3. As set out in paper GDSG/14/2/2, there is an interaction between vessel provision, contract length and how the next contract is delivered. The following table sets out the options:

Option	Service provided	SG/CMAL vessels are made available?	Operators required to use SG vessels?	Contract length	Cost and RV risk
(i)	Vehicle-passenger or passenger-only	Y	N	6 years	SG/CMAL
(ii)	Passenger-only	Y	Y*	6 years	SG/CMAL**
(iii)	Vehicle-passenger or passenger-only	N	N/A	12 years	Operator
(iv)	Vehicle-passenger or passenger-only	Vehicle-pax – Y Pax-only - N	N	6 or 12 years	SG/CMAL or Operator

* subject to agreement of EC

** no residual value risk

Options

4. The Scottish Government's working assumption is that new-build vessels are needed although it cannot be ruled out that suitable options may emerge on the charter or second hand markets during the tendering process for the next operating contract.

5. The two basic options which have been highlighted in these discussions are:

- Scottish Government offers to provide vessels but cannot require them to be used except under option (ii), passenger-only service, and if EC agreement is secured;
- The operator provides vessels.

6. The key objective is to ensure future vessels which are reliable.

7. The main arguments in favour of the Scottish Government providing vessels are that:

- It gives an increased level of control over vessel design and construction
- It removes any risk that bidders would minimise vessel costs in a way which undermines reliability in order to increase the competitiveness of their bid.

8. The main arguments in favour of the operator providing vessels are that:

- It assigns responsibility for operations clearly to the operator who cannot then seek to blame the vessel owner for reliability or technical failures
- It enables bidders to put together a coherent tender – given that vessel design drives many of the costs including crew, harbour charges and fuel as well as those costs (charter, maintenance, insurance) directly associated with the vessels.
- It enables a long-term (12 year) contract to be put in place – this enables not just the capital investment required but also a long-term commitment from the operator into developing and marketing the route in partnership with the community.

9. The Steering Group has recognised the need for new vessels and for these to function properly we need to ensure that appropriate infrastructure is in place. As set out in the paper on harbour charges discussed at the last meeting¹, for a bid based on either a vehicle-passenger or a passenger-only service, recognition is needed that additional costs may be needed for the specific infrastructure used by that service and that these need to be taken into account when comparing bids.

Recommendation

10. In the light of the above we recommend Option (iii) as set out in paragraph 3 – bidders to bring their own vessels. However, if a passenger-only procurement option is chosen then it would be worth considering Option (ii) – a requirement for bidders to use vessels provided by CMAL which would align with the CHFS contract.

¹ GDSG 14/2/3

Risks

11. Given the reliability problems the current service has experienced, the most significant risk is that future vessels do not meet expectations.

12. This risk can be mitigated by:

- requiring bidders to provide designs that meet clearly specified input and/or output criteria. The high-level specifications set out by TMG for vehicle-passenger and passenger-only vessels as part of the feasibility study provide a good starting point;
- only taking to full evaluation those bids which meet the vessel design criteria (so there is no incentive to 'trade-off' reliability against cost);
- setting an appropriate balance between cost and quality in tender evaluation criteria;
- robust evaluation of designs, informed by expert maritime technical advice;
- partnership working between the successful bidder and the SG (probably through CMAL) during the detailed design and shipbuilding phase
- community engagement during the process.

12. Any challenge to the vessel requirement set out in the service specification is likely to come from a potential bidder who considers that they can provide a service using vessels (existing or proposed) which do not meet the detailed vessel specification. We consider the risk of such a challenge to be **moderate** but, as long as our vessel specification is justified (and the work undertaken by TMG provides a good basis for this) we consider the likelihood of a successful challenge to be **low**. In addition, the likelihood that new vessels will be required creates a more level playing field and avoids excluding potential bidders on the basis that they do not have access to suitable vessels.