

Gourock – Dunoon Ferry Service Future Contract

Harbour charges

1. The town centre service operates between ports in Dunoon, owned by Argyll & Bute Council (ABC), and Gourock, owned by Caledonian Maritime Assets Ltd (CMAL).

2. The MVA report highlighted that, under current published tariffs, a new vehicle ferry operator would pay around £2.6m pa more in harbour charges than an 'optimal' passenger-only operator¹. The MVA study concluded that, with harbour charges at the published rate, a 2-vessel service would be viable on the basis of the assumptions and forecasts made. Based on the incremental cost methodology employed by MVA, prospective bidders would need to secure between 35% and 47% of the current vehicle-ferry market². This is within the 56% market share forecast by MVA for a 2-vessel service and so the harbour charges as they stand are not preventing a future vehicle-ferry bid or service³.

3. However, there are concerns that:

- the added costs could reduce the attractiveness to bidders of providing a vehicle-ferry service as they would have to aim for at least a third of the share of the vehicle-carrying market;
- an increase in harbour charge income at the level calculated by MVA could exceed the additional costs to the harbour authorities associated with the provision of a vehicle-carrying service.

4. Both harbour authorities own a network of harbours (40 for ABC and 24 for CMAL) and set charges on a network-wide basis. In both cases, ferry services using the ports pay:

- berthing dues – per vessel per call, on the basis of gross tonnage, so generally speaking the larger the vessel the higher the charge;
- pier dues – per passenger and vehicle.

5. CMAL currently provides significant discounts on berthing dues based on frequency. The Gourock-Dunoon service qualifies for the maximum discount. ABC do not discount berthing dues. CMAL have recently adjusted their methodology for berthing dues to reduce the rate per tonne significantly from £0.35 to £0.14 (to be confirmed) and to remove volume discounts. The impact of this change on the

¹ See paper GD SG 1204/2/3 – previous Steering Group paper on harbour charges

² Depending on the economic scenario: Static = 41%, Gradual Recovery = 39%, Trend Growth = 35%, Decline = 47%.

³ As part of the market engagement carried out in November 2013, the 6 potential operators interviewed stated that the level of harbour dues at Gourock or Dunoon was not a factor that affected their decision to bid; all operators noted that they needed to know what the harbour dues were and that clarity on dues is required. See GDSG 2014/1/2 – market engagement summary paper.

findings of the MVA study will need to be quickly considered. This change has not yet been implemented.

6. Neither harbour authority discounts pier dues.

7. Both harbour authorities have challenging investment programmes ahead that are not affordable solely from harbour charges (CMAL receives grant funding from Transport Scotland for major projects; ABC receives some funding annually as part of the local government grant from the Scottish Government and can also use prudential borrowing to fund capital projects). An increase in income from harbour charges would make the harbour networks more self-sufficient.

Previous paper

8. As noted in Paper GDSG 14/2/3, additional income from harbour charges should be:

- offset by additional costs (operations, maintenance, development);
- reinvested into the harbours, and/or
- taken into account when assessing harbour charges in future years.

9. Paper GDSG 2014/2/3 concluded that:

- the level of harbour dues is one of the four main costs factors that bidders will need to take into account and they will therefore need clear information on what charges will apply at each port.
- or a vehicle service bid, some recognition will be needed that additional revenue from harbour charges may outweigh the additional costs and should therefore be reflected in charges.
- for either a vehicle-passenger or a passenger-only bid service, recognition is needed that additional costs may be needed for the specific infrastructure used by that service.
- these issues would need careful handling to avoid them appearing to be attempts to distort the competition in favour of vehicle-ferry bids.

10. A meeting between representatives of CMAL, ABC, TS and DGFAG took place in December 2014. The risks outlined above were recognised by both harbour authorities and possible responses were discussed (see below).

Next steps

11. It is for the harbour authorities to determine how they comply with legal requirements on charging. As discussed in the previous paper, this could be done:

- on a network-wide basis, reflecting that charges are set across the ABC and CMAL networks, or

- on a standalone port basis, reflecting that Gourock and Dunoon are outside the CHFS network operated by CalMac⁴ and that income and expenditure should be balanced within these individual ports.

12. The harbour authorities already reassess their charges annually in response to changes in costs and income. However this is reactive.

13. The challenge for the harbour authorities ahead of the next tendering exercise will be to provide a set of future charges that will inform potential bidders of the costs of both the passenger and vehicle-carrying portions of the service. Although costs could be revised downwards in the event that a future vehicle-carrying service exceeds expectations, it would be contentious if the harbour authorities had to increase charges if the vehicle-carrying service under-performed. The network model helps protect individual harbours, and individual operators, from these sort of uncertainties.

14. The standalone model has other benefits however including transparency, in particular in ensuring that appropriate future infrastructure is funded by those using it.

Conclusion

- As part of the procurement exercise, bidders will need to know what the harbour charges will be in order to inform their cost model and, in the case of the passenger service, their subsidy requirement;
- It is therefore recommended that the 2 harbour authorities review their harbour charges, either on a standalone or network-wide basis, to take account of the potential impact on costs and revenues of a vehicle-ferry service on the route;
- Harbour charge information would then be provided to all bidders as part of the tender specification.

Transport Scotland
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⁴ Other than occasional use by CalMac of Gourock as a 'port of refuge' and, for a temporary period, as the mainland port for services from Rothesay whilst Wemyss Bay is closed for major works.