



DATED

1 JUNE 2012

(1) the Scottish Ministers

- and -

(2) Serco Ltd

**VOLUME 2
CONTRACT SCHEDULES 2-17
relating to
NORTHERN ISLES FERRY SERVICE
PROVISION OF SERVICES**

**PART 2:
SCHEDULES 4-6
TS/FER/SER/2011/02**



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These are Schedules referred to in the Foregoing Contract between The Scottish Ministers and Serco Ltd

SCHEDULE 4 - FARES

Fare Structures

Passenger fares will be differentiated as Adult fares, Child fares for children of age between 5 and 15 years inclusive, which shall be 50% of the relevant Adult fare, and Infants of age less than 5 years which shall be zero.

Individual bicycles shall be carried free of charge when accompanied by a passenger.

Vehicles up to and including 6m length shall be carried at a price per item. Vehicles over 6m length shall be charged at a rate per metre length for each meter length of the vehicle.

Booking supplements shall not be charged for the use of debit cards. A proportional booking supplement may be levied on credit card payments to the extent that their use results in the Operator incurring costs above those that would be incurred if payment had been made with a debit card.

Proportional charges may be recovered from customers in relation to cancellations or amendments to bookings. The Operator must not unfairly penalise passengers if bookings are amended or cancelled for reasons outwith the passenger's control.

Discounts

The Scottish Ministers require the provision of certain discount classes which are listed below and termed the mandatory discounts. The operation of these discount classes may vary from the manner in which they have been operated previously, but the efficacy and economic effect should show no detriment to the target eligible users' group.

- Islander Discount: currently administered as a 30% discount on passenger and car tickets for residents.(this discount need not apply to special sectoral or event fares promoted for demand management purposes) Not separately funded by direct revenue replacement contribution.

- National concessions: currently 10% concession to senior citizens with a National Entitlement Card, Disabled passengers and those in full time education. Not separately funded by direct revenue replacement contribution. Not separately funded by direct revenue replacement contribution.
- Scotrail Travel Pass and Highland Rover tickets: 20% discount on the seated passenger standard fares purchased on the day of sailing. Not separately funded by direct revenue replacement contribution.
- Blind persons concession: 100% discount of fares for blind people. Not separately funded by direct revenue replacement contribution.

The terms of the following scheme are strictly controlled by Transport Scotland

- National Concessionary Travel: up to 4 single journeys each year for National Entitlement Card Holders resident on the Northern Isles. Funded by re-imbusement by the Concessionary Travel Unit, Transport Scotland.

For 2012, the Fares Schedule (Tariff) shall be that published by Northlink Ferries Limited and applying to the Grant Agreement terminating on 5 July 2012

For 2013 and subsequent years the Fares Tariff shall be as below Tariff Index Linked unless modified by the Scottish Ministers or the Scottish Ministers approval to an alternative structure proposed by the Operator.

Proposed Fare structure.

(Proposals for the published Tariff to take effect from January 2013)

1. Summary of our proposal

The strategic outcomes of Serco Northlink Ferries' (SNF) Fares Plan are, for the period of the contract, to:

- Introduce a more flexible fares system in line with the needs of users (existing and potential), visitors and the local communities
- Introduce a more commercial approach to fare setting
- Increase overall passenger numbers
- Increase overall revenue per annum
- Reduce the level of ongoing grant which would otherwise be required
- Increase the average on-board spend per customer
- Maintain or improve customer perceptions of value for money
- Help achieve the objectives of the island authorities and the Scottish Government
- Ensure average fare receipts do not increase higher than the base fare plus CPI
- Provide a tariff structure for freight users which is transparent, fair to all, consistently applied, easily accessible and doesn't distort the market
- Align annual changes in a large number of fares to inflation, to reduce risk to Transport Scotland
- Introduce a fares system that can be refined and made more flexible during the contract period
- The proposed Fares Plan will introduce a 'fares basket' approach. fares

Over the duration of the contract, SNF will introduce a Fares Plan which will provide the right ticket at the right price and time for each customer group that has been identified in our market segmentation analysis.

Overall and in support of growing visitor numbers our Fares Plan will:

- Be fully appreciative of the importance of the service as a lifeline to the social, economic and environmental wellbeing of the communities and businesses we will be serving
- Be customer-centric, responsive to passenger decision-making criteria of price and flexibility regarding date of travel
- Smooth demand at peak times and achieve higher patronage where demand is currently low
- Generate optimal value and efficiency – in addition to generating higher passenger revenue, increased patronage will also drive increased on-board spend, and even greater grant reduction
- Reflect the periods of high demand correctly as being peak times in the tariff
- Remain transparent and straightforward from the customer's perspective

2. Not used

3. Our proposal – Passenger, Non-Commercial Vehicle and Cabin Fares

Our Fares Plan is designed to offer a much more flexible structure which will introduce a greater commercial approach, increase carryings, raise revenue and ultimately reduce the level of ongoing grant. In addition, the Plan will better meet the needs of users, while at the same time helping to support the

objectives of the island authorities as well as the Scottish Government. It is designed to offer the right ticket at the right price and time for each customer group.

Fares Basket

To achieve the benefits outlined above, our Fares Plan will involve a 'fares basket' approach where some fares will increase above CPI, some fares will increase below CPI and other fares will increase in line with CPI. However, the overall structure will be designed to ensure that the average fare receipt for each fare type does not increase each year at a higher level than CPI.

Our market analysis and research reveals that some customers are more responsive to fare changes than others. The Proposal will target slightly higher than CPI fare increases for those fare types which are price inelastic and less responsive to fare changes and slightly lower than CPI increases for those customers who are more responsive to changes in fares with the ultimate aim of increasing overall carrying numbers and total revenue. This Plan will also be consistent with the Scottish Government's strategy on climate change by encouraging less use of the private car.

We will calculate the forecast average fare receipt in advance of each year in line with the Scottish Ministers' requirements and will secure consent from Scottish Ministers no later than 31st July prior to the relevant calendar year. This will be calculated individually for each fare type.

Throughout each year where some fare changes differ from CPI, fares will be to ensure that the outturn increase in average fare receipt does not exceed CPI .

Mid, Low and Peak Fares

The current fares structure sets out fares for low, mid and peak seasons. The low, mid and peaks essentially refer to particular periods of the year:

- **Low Season** - January, February, March, November, December (excluding 19 Dec - 8 Jan).
- **Mid Season** - April, May, June, September, October, 19 Dec - 8 Jan (to include Christmas & New Year period).
- **Peak Season** - July, August

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2012 passenger, vehicle and cabin fares

The fares for the first six months of the contract (from July 2012 to December 2012) will be the 2011 fares increased by 6.5%. This has resulted in the following 2012 fares structure for visitors for the three routes. The fares for islanders, visitor concessions and islander concessions are all based on a percentage of the visitor fares and are therefore a proportion of these fares.

Table 1.3.1: Current / 2012 Published Fares

Tariff	Scrab - Strom			Ab - Ler			Ab - Kirk			Ler - Kirk		
	Low	Med	Peak	Low	Med	Peak	Low	Med	Peak	Low	Med	Peak
Passengers												
Adult single	15.50	16.80	18.10	24.90	31.70	38.10	19.10	23.90	29.10	16.20	19.10	23.00
Child single	7.80	8.40	9.10	12.50	15.90	19.10	9.60	12.00	14.60	8.10	9.60	11.50
Infant	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
Vehicles												
Car (<6m)	49.10	50.40	54.30	101.40	129.10	136.20	75.20	98.10	103.30	58.10	84.30	95.20

Moterhome <= 6m	49.10	50.40	54.30	101.40	129.10	136.20	75.20	98.10	103.30	58.10	84.30	95.20
Long and towed veh (per m)	9.10	10.70	11.70	11.00	13.60	16.20	10.10	12.00	13.60	9.70	11.70	13.00
Bicycle	Free											
Motorcycle	14.90	16.80	18.80	21.30	23.30	25.90	16.80	20.00	23.30	16.80	19.40	22.00
Bus	164.60	180.70	200.10	274.30	293.70	309.10	203.30	232.40	245.30	145.30	164.60	180.70
Midi	87.20	96.80	109.80	152.10	193.60	204.30	116.20	147.20	155.00	87.20	113.40	142.80
Cabins												
Inner 2 berth	n/a	n/a	n/a	51.70	64.60	77.50	51.70	64.50	77.50	51.70	64.50	77.50
Inner 4 berth	n/a	n/a	n/a	64.60	90.40	100.70	64.60	90.40	100.70	64.60	90.40	100.70
Outer 2 berth	38.80	38.80	45.20	67.20	93.00	103.30	67.20	93.00	103.30	67.20	93.00	103.30
Prem outer 2 berth	50.60	50.60	50.60	93.30	118.80	129.10	93.30	118.80	129.10	93.30	118.80	129.10
Outer 4 berth	38.80	38.80	45.20	n/a								
Daytime cabin	25.90	25.90	25.90	n/a								
Cabin share												
Berth in inner 4	n/a	n/a	n/a	22.00	31.00	33.60	22.00	31.00	33.60	22.00	31.00	33.60
Berth in outer 2	n/a	n/a	n/a	33.60	46.50	51.70	33.60	46.50	51.70	33.60	46.50	51.70

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The proposed price for premium reclining seats is £18 and £3 for a blanket.

Cancellation and Booking Amendments

Customers will be entitled to a full refund if their journey is cancelled as a result of SNF not sailing.

On the current website, the incumbent promotes that it never makes any charges for amendments to bookings. This policy has the potential to negatively affect demand and capacity management due to late notice changes and could also be unfair to passengers who may have wished to travel but could not, as at the time of booking, cabins etc. were not available.

We have conducted best practice reviews and identified that it is usual for an administration fee to be charged for booking amendments and that where a passenger does not arrive at the port the ticket price is non-refundable. SNF will therefore introduce a statutory administration fee for booking amendments. Where the price of the sailing is greater than the price of the trip originally booked, further payment will be required from the passenger to cover the difference in cost. Where the price of the rebooked sailing is lower than the new fare booked, no refund will be given. Customers will be able to amend their bookings for travel within six months of the date of purchase, giving a minimum of 24 hours' notice.

For cancellations that occur without any notice to SNF (e.g. the passenger does not show up for the journey), the full fare will be forfeited by the customer.

For cancellations that occur with notice to SNF, the following scale will be applied:

- £10 administration fee per booking over two weeks prior to sailing
- 50% of total booking value up to two weeks prior to sailing, plus £10 administration fee
- 100% of total booking value upon failure to embark

reasonable and equitable with customers in those situations. Where customers arrive at the port early or late for their booked sailing, we will try to accommodate them onto the next available departure subject to availability. Where this departure is at a higher fare than the original fare booked, the customer will be required to pay the difference. Where the departure is at a lower fare than the original fare booked, no refund will be given.

Where a customer has particularly extenuating circumstances, such as a bereavement, our Contact Care Centre Manager will review these cases on an individual basis.

Our refund / amendment application process is described in the Customer Care Plan - Schedule 10.

Increasing fare revenue through more targeted and innovative marketing

Our Fares Plan will work in synergy with the following accompanying revenue development plans that can be found in our bid submission:

- Marketing (see Schedule 7)
- Customer care (see Schedule 10)
- On-board services (see Schedule 3: Hotel & Catering)

Our Fares Plan and Marketing Strategy will be designed to attract, throughout the year, those who travel without a car as there are no 'passenger capacity only' constraints on any route.

We will introduce package-offers for customers as outlined in our on-board strategy (see Schedule 3: Hotel and Catering) to encourage upgrades. Examples include the introduction of premium reclining seats and catering-inclusive tickets. This will increase revenue from those who are keen to have a sleeping facility, but are unable to afford a full cabin.

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We will pilot a loyalty scheme for residents in September 2012 - to build low season volume, reinforce customer satisfaction and loyalty and drive increased usage. Our customer research shows that a reward-based loyalty scheme would significantly increase frequency of travel amongst residents. This will generate the following benefits in addition to incentivising additional journeys:

- Obtain additional customer intelligence and insightful segmentation data to develop our Customer Relationship Management (CRM) database and be able to maintain ongoing dialogue and communication with customers
- Strengthen the NorthLink brand by being seen to provide additional benefits to more frequent travellers
- Potential opportunity to link with the community and partners for incentives and win/win campaigns

Our Fares Plan includes offering product bundling / unbundling where customers will have the opportunity to buy combinations or packages of products within their fare, including:

- Cabins, and other sleeping facilities such as 'pods'
- Meals
- Wi-fi
- Business working facilities
- Social media zone

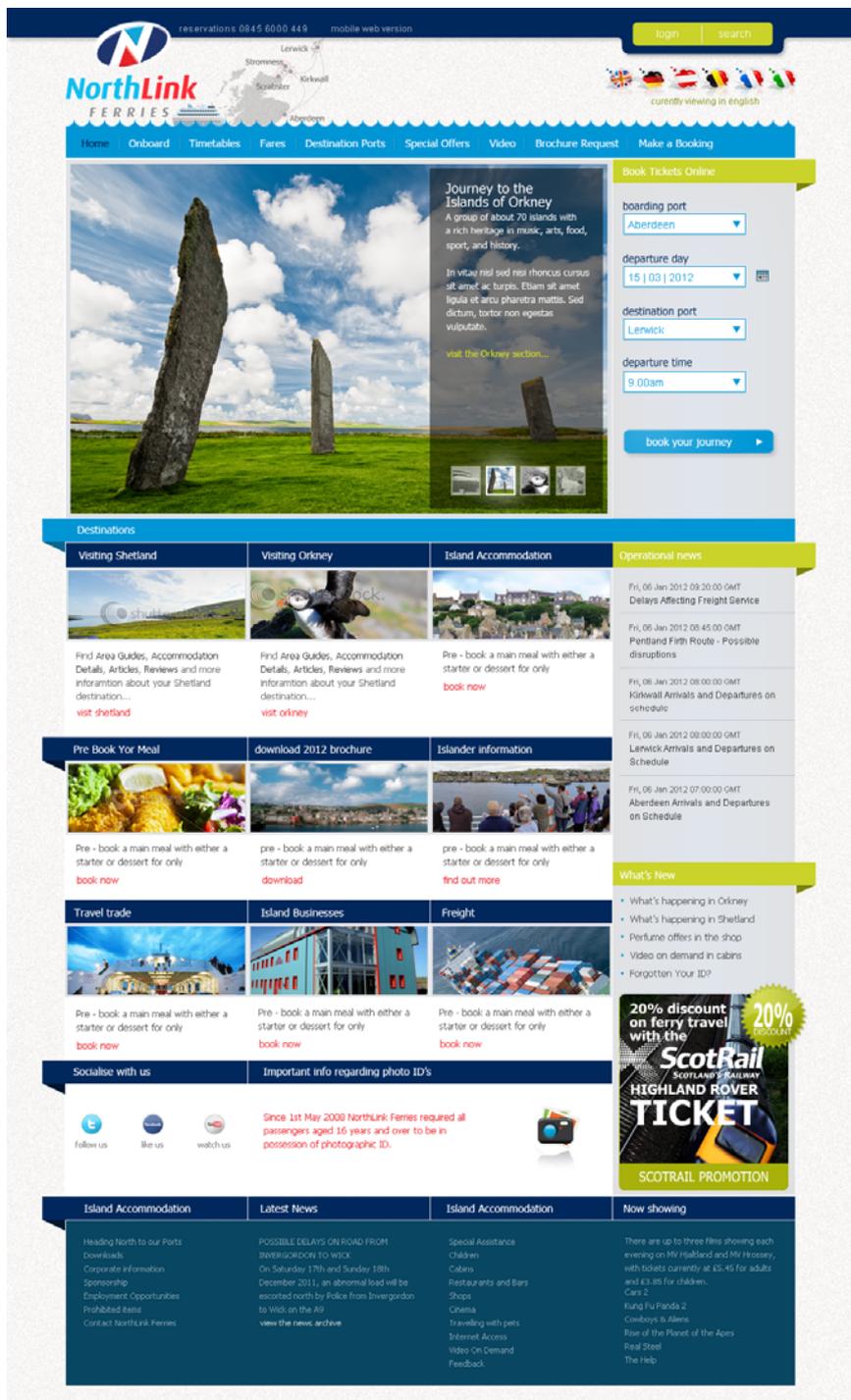
The fares element can be clearly delineated to allow the average fare calculation.

When our new website launches in January 2013 (see section 2.7 – Marketing, for more information on this), our aspiration is for more frequent customers to be able to make their own seat reservations, claim

automatic compensation, access limited offers and manage their own accounts on the website.

Website

The internet plays a significant role in the research process for travel products in the UK,.



To ensure that SNF is able to leverage potential for positive brand positioning and revenue growth from digital media channels, we will invest in a newly improved, smartphone-enabled website plus additional investment in a supporting app that will generate a positive return on our investment, whilst substantially improving the customer experience.

The new website (mock example to the left showing our approach) will launch in January 2013 and will underpin the key foundations of our overarching service proposition, enabling revenue growth by:

- Supporting our customer experience strategy by ensuring that customers have easy access to user-friendly information and booking facilities 24 hours a day
- Enabling the delivery of our strategy to optimise yield, provide margin-enhancing SNF product and service selection facilities for customers
- Generating commission and customer satisfaction by providing the facility for customers to purchase pre and post journey items via the website – e.g. cycle hire, excursions, hotels

- Supporting our customer experience and marketing strategy by being fully integrated with our CRM system, so that we can provide information, promotions and offers that are targeted to customers

- Provide useful information for the customer on cancellation fees

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4. Our proposal – Fares Plan for Freight

The tariff from April 2012 has already been published and includes a 6.5% increase from 2011 rates announced by Scottish Ministers. SNF will continue to apply this tariff through the remainder of 2012.

The existing categorisation of freight is appropriate for the customer base and doesn't discriminate between one freight customer and another based on cargo being carried or volume of freight moved, as required by ISFT Volume 4, Section F, 35.2. It is also well understood by customers, so we propose no change from the current situation.

The basis of charging will remain the 'Lane Metre'. No premium will be applied for time sensitive or dangerous goods traffic. The tariff will be applied in the following way to the various different freight categories:

Freight description	Measure	Rate category
Accompanied commercial vehicles over 6m.	Per measured length (m)	SPV
Unaccompanied loaded trailers	Per measured length (m)	Drop Trailer
Unaccompanied empty trailers	Per measured length (m)	Empty Drop Trailer

Loaded livestock cassettes and operator owned livestock trailers.	Per measured length (m) - or loaded 'pen' within part loaded cassette as current.	Drop Trailer
Unaccompanied cars	Per measured length (m)	SPV
Unaccompanied loaded trailers (weekend saver service, AB-KI)	Per measured length (m)	Weekend Saver
Bagged Bulk Freight – will be acceptable either palletised or in top-lift tonne bags to be handled with fork lift truck equipment at ports	Pallets will be charged individually at half the SPV rate per metre. (based on standard 1m x 1.2m pallet)	50% SPV
Plant and equipment	Per measured length (m)	SPV
Containers (20', 40', 45') Either loaded by crane or on Mafi trailer.	Fixed price. Craneage if required will be at customers' expense and organised directly with stevedores in liaison with SNF load planners.	LoLo tariff
Other out of gauge cargo	For cargos that are highly unusual in size, shape or weight, SNF will apply a rate on application. This will be based on a judgement related to the amount of capacity that is compromised as a result of carrying the cargo, which could otherwise be sold to other users.	
Groupage / parcel / other small packages	As is current practice, SNF do not propose to offer a direct service for small, loose items of freight. Our marketing plan will develop closer links to our key haulier partners as a collaborative means to offer door to door services to end users with this type of freight.	

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Published Tariffs and incremental changes

The following tables of tariffs will continue to the end of December 2012:

2012 RoRo Rates (until 31 December 2012)

	Advance Booking/ Standby			3 Day Premium	
	Self Propelled	Loaded Drop Trailer	Empty Drop Trailer	Self Propelled	Drop Trailer
AB-LE route	£36.83	£37.44	£14.93	£40.75	£44.66
AB-KI route	£27.66	£28.76	£7.89	£34.51	£36.47

SC-ST route	£22.88	£22.88	£22.88		£33.53	£40.02
LE-KI route	£23.00	£25.09	£10.03		£26.07	£30.96
AB-KI (only) weekend saver on freight vessel	N/A	£19.81	£7.89		N/A	£36.47

2012 Lift On Lift Off Container Rates (until 31 December 2012)

Route	Loaded 20 ft (6.1m)	Empty 20 ft (6.1m)	Loaded 40 ft (12.2m)	Empty 40 ft (12.2 m)	Loaded 45ft (13.7m)	Empty 45ft (13.7m)
AB-LE route	£228.38	£91.07	£456.77	£182.15	£512.93	£204.54
AB-KI route	£175.44	£48.13	£350.87	£96.26	£394.01	£108.09
LE-KI route	£153.05	£61.18	£306.10	£122.37	£343.73	£137.41
Freight vessel weekend saver AB-KI (only)	£120.84	£48.13	£241.68	£96.26	£271.40	£108.93

To reflect the increasing use of 45ft domestic intermodal containers being used in many European freight flows, we have included a rate specifically for them. This rate, also based on the core drop trailer rates, would apply to both 8'6" standard height containers and 9'6" high-cube containers.

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5. Outcomes and benefits

The proposed Fares Plan as set out above will, over the time of the contract, bring benefits in terms of:

- Increasing volumes, raising revenue and reducing the level of ongoing grant. Our initial research and analysis shows that, when taken collectively, the actions in this Fares Plan, including the loyalty card, will generate an increase in revenue over the duration of the contract
- Attracting more visitors to the islands, particularly in the 'shoulder' periods of the peak which is

consistent with the policy objectives of the local authorities

- Helping support key economic and social objectives of Transport Scotland and the island authorities
- Introducing a more flexible system to meet the needs of businesses and individuals better
- Introducing a freight tariff structure which will enable further success for key island industries

Monitoring, evaluation and KPIs

We will install a framework to monitor and evaluate the success of the Fares Plan, in terms of achieving the strategic outcomes. This will include a number of Key Performance Indicators (KPIs), such as:

- Revenue growth – actual against budget and forecast, comparison against historical trend and other ferry industry performance
- Passenger growth (for all ticket types) - actual against budget and forecast, comparison against historical trend and other ferry industry performance; comparison against performance of air services to Northern Isles
- Customer satisfaction – monitor results of ongoing user and non-user survey to understand customer perceptions of value-for-money and satisfaction with fare options

Demand Management

1. Summary of our proposal

Our analysis reveals that there are very few occasions, across all routes, where passenger carryings and vehicle lane metres almost reach capacity. These are very much limited to weekend summer sailings. Our proposal includes

- Ensuring that there will be sufficient passenger, vehicle lane metre and cabin capacity to meet forecast demand throughout the contract period
- On the few occasions where demand will require to be managed through offering those customers who are not time sensitive opportunities to purchase more attractively priced tickets for sailings classed as 'low' or 'mid'
- Moving from categorising low, mid and peak seasons to low, mid and peak sailings will enable demand for vehicle space and cabin availability to be managed more effectively at different times of the year and different days of the week
- The introduction of alternative, and additional, sleeping facilities will provide a cheaper option and will free up cabin accommodation for those who require it.

2. Not used

3. Our proposal

The evidence from our analysis and research reveals historically there have only been a small number of occasions when passenger numbers or vehicle lane metres have neared capacity on particular sailings. This has occurred only in what is currently regarded as the peak season and our proposed timetable (see Schedule 3 Services) will be sufficient to accommodate demand during this period. Indeed, even on the Stromness - Scrabster – Stromness service where we are proposing to move to two return sailings per day at certain times of the year, i.e. off peak, there will be sufficient capacity to accommodate future demand.

Where there may be an increase in demand, for example due to the future success of our proposed marketing strategy (Schedule 7 Marketing), again the analysis shows there will be sufficient capacity to accommodate our forecast demand for passengers and vehicle lane metres.

Our proposed Fares Plan is aimed at increasing demand throughout the year, but particularly in the 'shoulder' periods of the summer and the quieter periods during the Spring and Winter. The successful outcome of this approach will not require additional passenger or vehicle lane metre capacity on any of the NorthLink routes. Indeed, our Fares Plan will spread demand and ensure a more efficient provision to accommodating carryings throughout the year.

The evidence shows that there is cabin capacity issues on the Aberdeen – Kirkwall - Lerwick route on particular days of the week at certain times of the year. A number of measures are proposed to deal with this, although it should be recognised that increasing cabin capacity is not one of these. This is because of the physical constraints on the vessels and also because we are confident our proposed changes to fares and the reclassification of low, mid

and peak sailings will provide an effective and efficient solution to the problem. In 2014, subject to discussions with Scottish Ministers, we will introduce a structure of low, mid and peak sailings by day, as opposed to seasons. The impact of this will be to make available mid-sailing priced fares during what is currently the peak season. This will provide the mechanism for encouraging customers to switch from peak to mid sailings and manage cabin and vehicle demand more effectively.

In addition to encouraging customers to move between sailings, we will also introduce alternative and less expensive sleeping facilities such as 'pods'. This will free up cabins by allowing people who generally book them to use alternative facilities.

As well as introducing low, mid and peak sailings, SNF will, from 2014, introduce fares baskets for different categories of fares e.g. passenger, vehicles and cabins. Within these fares baskets we will increase some fares above CPI and increase other fares below CPI, while ensuring the overall fare change within the basket does not exceed CPI. This fares basket approach will provide another mechanism for managing demand by introducing lower fare increases and incentivise customers to travel on sailings where there is sufficient capacity.

4. Outcomes and benefits

The measurable benefits which our demand management proposals will deliver include:

- A reduction in capacity constraints meaning that more people will be able to travel at their preferred time / day
- Allow customers who are less time sensitive to travel on a less expensive sailing
- Free up cabin accommodation while also providing cheaper sleeping facilities
- A higher number of visitors to the islands
- A more pleasurable journey experience for those travelling during the peak and off-peak periods
- More flexibility for business users
- More efficient delivery of the service
- An increase in revenue, leading to relatively lower levels of ongoing grant
- Increasing yield and return for the operator
- A reduction in fuel usage by running services where demand dictates the service is required

Mandatory classes of discounts

1. Summary of our proposal

Scottish Ministers require the provision of certain discount classes, which are termed Mandatory Discounts.

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Serco Northlink Ferries (SNF) will continue to offer these Mandatory Discounts.

2. Not Used

3. Our proposal

Scottish Ministers require the provision of certain discount classes, which are termed Mandatory Discounts. These are:

- **Islander discount:** currently administered as a 30% discount on passenger and car tickets for residents.
- **National concessions:** currently 10% concession to senior citizens with a National Entitlement Card, disabled passengers and those in full-time education.
- **ScotRail Travel Pass and Highland Rover tickets:** 20% discount on the seated passenger standard fare purchased on the day of sailing.
- **Blind persons concession:** 100% discount fares for blind people
- **National Concession Travel:** up to four single journeys each year for National Entitlement Card Holders resident on the Northern Isles.

The first four of the above discounts are not separately funded by direct revenue replacement contribution, while the fifth is funded by re-imburement by the Concessionary Travel Unit, Transport Scotland.

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The Mandatory Discounts will apply to the published fares and be included within the 'fares basket' and calculation of average fare receipts. The Mandatory Discounts will not, however, apply to bespoke or special offer fares.

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Where the terms and conditions allow, SNF will make these mandatory discounts available when booking online.

4. Outcomes and benefits

The availability of the proposed discounts will contribute to the Scottish Government's agenda in terms of creating an inclusive society for all, reducing inequalities and ensuring accessible and affordable transport services. In particular, it will ensure that those with disabilities or living in remote parts of the country are able to enjoy the benefits available to the rest of society.

In addition, we will make available a facility for all mandatory discounts to be made online and therefore make the booking experience as convenient as possible for those who want to use SNF's services.



Preferential (Trade or sectoral) Discount Schemes

1. Summary of our proposal

Overall our strategy for discounts is to support the local communities and help those in most need. These discounts will be, for example, offered to school and community groups.

In addition, the discounts will be aimed at generating additional demand and revenue during off-peak periods, particularly when carryings are anticipated to be low and the marginal cost of increasing carryings is around £0.

3. Our proposal

Our approach to discounts is to work with the local communities and offer reduced fares which will benefit particular groups in need. For example, discounts will be available to local community groups on the islands, including those with special needs or sports teams. Discounts will also be available to school parties using the journey for educational purposes. Other organisations, such as charities (either islanders or visitors) will be invited to apply for a discount and each of these requests will be considered and decided on their particular merits.

In addition, bespoke discounts and special offers will be made available to targeted groups, with the aim of increasing volumes and revenue at low or zero cost.. On quiet sailings on all routes it will be possible to offer a discount if a return ticket is purchased, as long as both legs are on particular days not classed as peak. To increase volumes we will also make available special offers, for example, if a ticket is purchased for a particular day, e.g. a free meal voucher up to a certain amount.

We will also offer 'internet only', non-refundable advance fares at selected times, at a discount from the normal fare. This will help to drive demand at times of low passenger numbers and is already a common practice in UK rail and hotel online bookings. Special 'internet only' return fares will also be made available at quieter times to encourage customers to use the ferry on less busy days for both legs of their journey. These fares will be included in our overall fares basket.

We will continue to offer and promote the current 'Friends and Family' offer arrangements (we note that it is not part of the mandatory islander discount), as initial information shows that take up levels are satisfactory:

Period	Number of customers	Revenue £'k
Year to June 2009	9,316	298
Year to June 2010	4,832	147
Year to June 2011	11,578	377

Whilst the Friends and Families offer was not made over the same months in each of the years, the most recent year's results suggest that there is latent potential to grow this offer further.

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understand the market and design a range of discounted offers, to be available from January 2014 onwards, which meet the needs of the islanders, while at the same time increasing customer volumes.

All discounts will be designed to ensure there are no unintended incentives for users which could undermine or act in a way which is contrary to the principles and aim of our proposed fares structure.

All discounted fares will be included within the 'fares basket' and will therefore be used to calculate the average fare receipts for a given year.

Information on discounts, including contact details for those willing to discuss or apply, will be made available on the website.

4. Outcomes and benefits

Our strategy for discounts on fares will:

- Support local groups in helping to meet needs and deliver community objectives
- Support educational activities to develop children and those in further education, including contributing to the Scottish Government's agenda on the Curriculum for Excellence (see also Schedule 7 Marketing Plan regarding working with schools)
- Increase volumes and revenue during quiet periods at minimal additional cost

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SCHEDULE 5 – VESSELS AND PORTS
PART A – SPECIFICATION OF VESSELS

The minimum number, classification, outline carrying capacity and onboard facilities required are as follows:

LOT A

ROPAX vessel

1 Vessel

MCA Class IIA or EC Class Equivalent

Operable between and able to utilise the access/exit facilities at the Harbours of Scrabster and Stromness

Passenger Certificate capacity – to meet anticipated demand.

Carrying Capacity – to meet anticipated demand

Service Speed – to assure a 90 minute crossing

Catering – Facilities to provide food and beverages

It should be noted that the vessel currently undertaking services on the Pentland Firth Route, the **Hamnavoe**, is available for lease to undertake the Lot A services under the Contract, supported by a tripartite agreement between the Operator, the Scottish Ministers and The Royal Bank of Scotland plc.

LOT B

ROPAX vessels

2 vessels

MCA Class IIA or EC Class Equivalent

Operable between and able to utilise the access/exit facilities at the Harbours of Aberdeen, Hatston (Kirkwall) and Lerwick

Passenger Certificate capacity – to meet anticipated demand

Carrying capacity – to meet anticipated demand

Service Speed – to meet timetable windows

Catering – Facilities to provide hot and cold food and beverages.

Cabins – 117 cabins of 2 and 4 berth configuration with at least 4 cabins disability adapted.

Recliner seats - 128

Reception and recreational areas.

FREIGHT ONLY VESSELS

Minimum number not specified

Classification Category – RORO/Freight Ferry/Multi-purpose

Able to operate from the freight berths in Aberdeen, Hatston (Kirkwall) and Lerwick Harbours

Carrying capacity – to meet anticipated demand

Service Speed – to meet timetable windows

GENERAL

Sufficient Capacity must be available at all times for, and capable of carrying the historic seasonal pattern of, dangerous goods and livestock

It should be noted that the vessels currently undertaking services on the Aberdeen – Kirkwall – Lerwick services, the **Hjalmland & Hrossey**, are available for lease to undertake the Lot B services under the Contract, supported by a tripartite agreement between the Operator, the Scottish Ministers and The Royal Bank of Scotland plc.

Proposed Fleet

Our Proposal

Serco Northlink Ferries (SNF) will lease the three RoPax vessels the Hamnavoe, Hrossey and Hjaltland, owned by The Royal Bank of Scotland (RBS) and to charter the freight vessels Helliar and Hildasay (or similar vessels). Each vessel will be deployed to deliver the mandated passenger services with:

- The Hamnavoe serving the Pentland Firth route (Scrabster to Stromness)
- The Hrossey & Hjaltland serving the Aberdeen to Lerwick route.
- The Helliar and Hildasay dedicated to freight between Aberdeen, Kirkwall and Lerwick

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Vessel Management

Our management of the vessels, using our substantial experience in ship management, is set out below with the critical certification and regulatory processes outlined.

Classification

Serco will maintain all vessels in Class with all statutory certification kept in date. Classification societies set Class Rules that contain detailed requirements for materials, ship structures, main & auxiliary machinery, control systems and electrical installations. The Northlink Ferries passenger vessels are currently in class with Lloyds Register of Shipping (LRS) and registered in the UK. LRS will carry out surveys for statutory and class certification and on behalf of the Maritime and Coastguard Agency (MCA) for certain certification.

Maritime and Coastguard Agency

The MCA implements the UK government maritime safety policy and acts as the certifying authority for the UK administration. The MCA interprets the IMO and government legislation, issuing guidance notices and recommendations to UK registered ships. All ships using ports in the UK, irrespective of flag state, are subject to port state control inspections and audits without prior notice. Serco will maintain strict compliance with the statutory requirements for the operation of UK registered passenger ships. The MCA issues specific Merchant Shipping (MS) notices relating to regulations and Statutory Instruments and Marine Guidance Notices (MGN) on all matters relating to safety at sea.

ISM Safety Management System

The IMO ISM Code provides a framework and international standards for the safe management and operation of ships and prevention of pollution. Compliance is mandatory for passenger ships and other ships of 500 gross tonnage and upwards engaged on international voyages. The Code requires ship managers to have an SMS which contains safeguards being established against the safety and pollution risks involved in shipboard operations, thus ensuring that vessels are managed and operated to an internationally recognised standard.

In line with legislation, Serco Northlink Ferries will ensure that the SMS operating on board contains a clear statement emphasising the Master's authority, categorically stating that the Master has the overriding authority and the responsibility to make decisions with respect to safety and pollution prevention and to request Serco's assistance as may be necessary.

The requirements of the ISM will be adhered to in relation to the SMS including a number of functional requirements:

- A safety and environmental protection policy
- Defined levels of authority and lines of communication between and amongst shore and ships' personnel
- Procedures for reporting accidents, etc
- Procedures for responding to emergencies
- Procedures for internal audits and management review
- Instructions and procedures to ensure safety and environmental protection

Vessel Handover Period

On change of ship manager, the ships will be required to be audited by the MCA for compliance to key elements of the ISM Code, having taken receipt and understanding of the Serco Safety Management System. An Interim Safety Management Certificate will be issued by the MCA to each ship on successful audit. The interim SMC is valid for a period of six months at which time the MCA will audit each ship to ensure the Serco safety management system has been implemented and is functioning in compliance with the code. A full ISM SMC will then be issued, valid for five years. This marks the start of the ships' five year ISM Certification cycle. Serco has successfully completed this process many times over the past 15 years and has an excellent track record of managing ships under ISM. We have a strong working relationship with the MCA who have assigned a dedicated central account manager and customer services manager to Serco, to assist us with any issues or concerns raised by the MCA, and provide for consistency in the application of standards and regulations and the identification and implementation of best practice.

Vessel Specifications

The vessel specifications for the fleet we are proposing are as follows:

Vessel Name:- Hamnavoe	
Built: Shipyard and date	Aker Finnyards 2002
Class: Lloyds Register Classification and Flag State Classification MCA or EC equivalent	Lloyds 100A1 Roll on roll off cargo / passenger ship LI LMC 10/02, UMS 10/02, SCM 10/02, TS/OG 10/02, NAV1 10/02 Flag State MCA
Flag, Port of Registration, Registration Number	Flag - British, Port of Registry – Kirkwall, Registration number - 905896
LoA: m, LbP: m, Beam: m, Summer draft: m, GRT, NRT, DWT:	LoA: 112.0m, LbP: 104.4m, beam 18.6m, summer draft :4.4m, GRT – 8780, NRT – 2634, DWT – 1320.
Main deck: lm x m ht	306lm for trailers x 4.9m ht + 85lm for cars
Lower hold: approx cars	N/A
Bow door type, ramp length, and clear	Clamshell with ramp of 13.0m length x 4.0m

driving width:	width
Stern door, ramp of length and clear driving width:	Ramp of 5.9m length x 4.5m width
Lower hold access:	
Crew cabins and berths:	36 crew cabins with a total of 40 berths
Passenger Certificate capacity: pax + crew	Passenger Capacity 600 + 29 crew
Passenger cabins and berths (specify as normal and disability adapted):	16 passenger cabins, 36 berths (normal 14 Disability adapted 2)
Seats (fixed rake, adjustable rake and flat-bed recliners):	Brinkies bar seats 138 Quiet lounge seats 54 Breckness restaurant seats 192 Hawkfall lounge seats 42 Lounge seats 66 Greenvoe lounge seats 114 Other seats 6
Bar/cafe	Main bar, self service restaurant, cafe bar, club lounge, drivers lounge
Shop	Yes
Cinema	No
Waiter service restaurant (Number of place settings and number of meal throughput/hour)	No
Self Service restaurant(Number of seats and number of serving throughput/hour)	Yes (Number of Seats 192 serving throughput / hr 240)
Children's play area	Yes
Gaming and video machine areas	Yes
Reception	Yes
Main engines, Generators, Propellers, Rudders, Bow thrusters, Stabilizers, Service speed (kts),	Main Engines – 2 x MaK9M32C, Generators – 3 x Mitsubishi – Volvo D 25A-MT, 645kVA, 415V Propellers – 2 x Kamewa propellers Rudders – twin rudders Bow Thrusters – 2 x Kamewa bow thrusters 1200kW Stabilisers – 2 x Mitsubishi stabilisers

	Service Speed 19.3kts
Fuel consumption: at Full speed and at Service speed	Service speed 19knts 90%mcrr =1.7 tonnes /hr Full Speed approx 21knts 100% mcrr = 2 tonnes / hr
Planned no of days not available per year (for maintenance, inspections, servicing, routine repairs etc)	14 Days per year for dry docking
Vessel Names:- Hrossey and Hjaltland	
Built: Shipyard and date	Built Aker Finnyards 2002
Class: Lloyds Register Classification and Flag State Classification MCA or EC equivalent	Class - Lloyds Register 100A 1 RoRo Cargo / Passenger ship, LI LMC, UMS, NAV1 Flag State Classification - MCA
Flag, Port of Registration, Registration Number	Flag - British, Port of Registration – Hrossey Kirkwall, Hjaltland Lerwick Registration Number – Hrossey 905898, Hjaltland 905898
LoA: m, LbP: m, Beam: m, Summer draft: m, GRT, NRT, DWT:	LoA – 125.0m, LbP – 119.0m, Beam - 19.5m, summer draft – 5.4m, GRT – 11,720, NRT - 3,757, DWT – 1,563
Main deck: lm x m ht	450lm x 4.6ht
Lower hold: approx cars	Approx 22 cars
Bow door type, ramp length, and clear driving width:	Clamshell with ramp length of 12.6m (+finger flaps) x 4.1m clear driving width
Stern door, ramp of length and clear driving width:	Ramp of length of 6.0m (+ finger flaps) x 4.5m clear driving width
Lower hold access:	Access by fixed ramps with hinged cover 20.0m x 2.5m clear opening
Crew cabins and berths:	38 cabins of which 4 are 2 berth
Passenger Certificate capacity: pax + crew	600 passengers + 33 crew

Passenger cabins and berths (specify as normal and disability adapted):	117 cabins with a total of 358 berths 52 x 2 berth cabins 61 x 4 berth cabins 2 x 3 berth disability adapted cabins 2 x 2 berth disability adapted cabins
Seats (fixed rake, adjustable rake and flat-bed recliners):	Premium seats 28 Reclining seats 107 Skyran bar seats 148 Small bar seats 73 Braebrough restaurant seats 199 Premium lounge seats 30 Premium restaurant seats 30 Other seats 7
Bar/cafe	Forward bar, midships bar, self service restaurant, a la carte restaurant and club lounge
Shop	yes
Cinema	Yes (one of the 2 recliner lounges)
Waiter service restaurant (Number of place settings and number of meal throughput/hour)	Yes (Number of Seats 30 serving throughput / hr 30)
Self Service restaurant (Number of seats and number of serving throughput/hour)	Yes (Number of Seats 199 serving throughput / hr 240)
Children's play area	yes
Gaming and video machine areas	yes
Reception	yes
Main engines, Generators, Propellers, Rudders, Bow thrusters, Stabilizers, Service speed (kts),	Main engines – 4 x MaK 6M43, 21600 kW Generators – 2 x shaft alternators + 2 x MaK 8M20 Propellers - 2 x Kamewa propellers Rudders – twin rudders Bow thrusters – 2 x Kamewa bow thrusters, 1800kW Stabilisers – 2 x Mitsubishi stabilisers Service speed – 24 kts
Fuel consumption: at Full speed and at	Service speed 24knts 90% mcr = 4 tonnes /hr

Service speed	Full Speed approx 26knts 100% mcr = 4.9 tonnes / hr
Planned no of days not available per year (for maintenance, inspections, servicing, routine repairs etc)	14 days per year for Dry docking

Freight VesselsThe existing RoRo vessels have the benefit of being proven on the route, are relatively fast and have been modified explicitly to cater for docking in Lerwick and carrying Livestock units.

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The following pro-forma includes details of the proposed RoRo vessels. These proposals are subject to ratification by the Operator who reserves the right to replace these nominations with alternative Vessels, subject to the approval of the Scottish Ministers.

Vessel Name:- Helliar / Hildasay	
Built: Shipyard and date	1997-1999 Astilleros de Huelva, Spain
Class: Lloyds Register Classification and Flag State Classification MCA or EC equivalent	Class: Det Norske Veritas
Flag, Port of Registration, Registration Number	Flag: Isle of Man POR: Douglas IMO number: Helliar 9119397 Hildasay 9119426
LoA: m, LbP: m, Beam: m, Summer draft: m, GRT, NRT, DWT:	LoA – 122.32m, LbP – 112.2m, Beam – 19.8m, Summer draft – 5.779m, GRT – 7,606T, NRT- 2,282T, DWT – 4,935T
Main deck: lm x m ht	Tank Top Deck – 205lm, 2 nd Deck - 455lm, 1 st Deck – 397lm Total 1057lm
Lower hold: approx cars	N/A
Bow door type, ramp length, and clear driving width:	N/A
Stern door, ramp of length and clear driving width:	Length – 10m, width 13m

Lower hold access:	N/A
Crew cabins and berths:	Cabins: 19 Berths: 19
Passenger Certificate capacity: pax + crew	12 passengers, 18 crew
Passenger cabins and berths (specify as normal and disability adapted):	6 Cabins 12 berths
Seats (fixed rake, adjustable rake and flat-bed recliners):	N/A
Bar/cafe	N/A
Shop	N/A
Cinema	N/A
Waiter service restaurant (Number of place settings and number of meal throughput/hour)	N/A
Self Service restaurant(Number of seats and number of serving throughput/hour)	N/A
Children's play area	N/A
Gaming and video machine areas	N/A
Reception	N/A
Main engines, Generators, Propellers, Rudders, Bow thrusters, Stabilizers, Service speed (kts),	Main engines – 2 x wartsila 9R32 LOW NOX, Generators – 2 x LSA M49.1 L9 C 6814, Alternator – LSAM 50 S3 BRUSH LESS, Propellers – 2x pitch controllable, Rudders 2 x Servo – ship sl cylinder -single, Bow thrusters ULSTEIN 150TV-D, Stabilizers, Service speed (kts),
Fuel consumption: at Full speed and at Service speed	Full speed - 1.333mt per hour, Service Speed – 1,25mt per hour
Planned no of days not available per year (for maintenance, inspections, servicing, routine repairs etc)	2-3 weeks dry docking every 2.5 years 1-2 days general maintenance every month

Replacement vessels or fleet redeployment

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PART B – OPERATOR'S OBLIGATIONS IN RELATION TO THE VESSELS

References herein to the Vessel apply to each and/or all of the Vessels, as appropriate. References herein to the Ship Charter apply to the Ship Charter entered into in respect of the relevant Vessel and/or to all of the Ship Charters, as appropriate.

Information and Compliance Undertakings

1. The Operator must throughout the Grant Period and so long as any obligations are owing by the Operator in terms of the Contract:

1.1. comply with the provisions of the Ship Charters at all times;

1.2. ensure that at all relevant times all licences, approvals, consents and permits required under Applicable Law which are (i) required for the use and operation of the Vessel and (ii) the absence of which would either expose the Scottish Ministers to any risk of any liability or expose the Vessel to any material risk of arrest, detention or sale, are, in each case, obtained and maintained in full force and effect;

1.3. furnish the Scottish Ministers promptly with all such information as they may from time to time reasonably require regarding the Vessel, her insurance, condition, maintenance, particulars of all towages and salvages; and

1.4. comply with all undertakings given by it in the Ship Charters as if set out in full in this Schedule.

Protection of Scottish Ministers' Rights

2. The Operator must throughout the Grant Period:

2.1. not sell or attempt to sell, agree to sell, transfer or otherwise dispose of or (except to avoid loss of life or personal injury) abandon the Vessel, or any share or interest therein;

- 2.2. promptly pay and discharge or procure that there are paid or discharged all debts, damages, liabilities and outgoings whatsoever which have given or may give rise to statutory, possessory or maritime liens on, or claims enforceable against, the Vessel or the Insurances or any part thereof and, in the event of the Vessel being arrested, seized or detained or the Insurances or any part thereof being arrested, attached or levied upon pursuant to legal process or purported legal process procure the release of the Vessel and the Insurances from such arrest, attachment or levy within 10 Business Days thereof; and
- 2.3. notify the Scottish Ministers promptly by facsimile or e-mail of any arrest, seizure or detention of the Vessel or any exercise or purported exercise of a arrest, attachment, lien or other claim on the Insurances or any part thereof.

Possession

3. The Operator must not at any time without the prior consent of the Scottish Ministers and, if such consent is given, only subject to such conditions as the Scottish Ministers may impose, part with the possession or operational control of the Vessel (except for the purpose of Scheduled Unavailability, maintenance, service, repair or overhaul work or any modifications, changes or alterations permitted and contemplated under the Ship Charter) or (in the case of a Fleet Vessel) sub-charter the Vessel or (in the case of an Operator Vessel) charter or sub-charter the vessel.

Title, Registration and Name

4. The Operator must during the Grant Period do all that may be necessary on its part to maintain in force the registration of the Vessel as a European ship. The Operator will not do, or knowingly or recklessly suffer to be done, anything whereby the registration of the Vessel will be forfeited or imperilled.
5. The Operator must not without the prior consent of the Scottish Ministers (and then only on and subject to such terms as the Scottish Ministers may agree) change the name of the Vessel.

6. Throughout the Grant Period the Operator must not create or agree or purport to create any encumbrance over the Vessel, any share or interest therein or in the Insurances or requisition compensation or any part thereof (other than with the prior consent of the Scottish Ministers).

Maintenance and Operation

7. The Operator must throughout the Grant Period:

- 7.1. at its sole cost and expense maintain the Vessel and every part of the Vessel (which includes any Funded Assets on or fixed to the Vessel) and keep it in a good and efficient state of repair and safe operating condition, seaworthy in all respects and in accordance with good maintenance practice (fair wear and tear excepted and having regard to the age and type of the Vessel) on a non-discriminatory basis with other vessels owned and/or operated by the Operator and in accordance with good industry practice for United Kingdom ferry operators and procure that all repairs to, or replacement of, any damaged, worn or lost parts or equipment are effected in such a manner (both as regards workmanship and quality of materials) as not to diminish the value of the Vessel and (without prejudice to the generality of the foregoing) the Operator must ensure that at all times:

- 7.1.1. ensure the Vessel maintains the classification of the Vessel with the relevant Classification Society and to the extent any additional class notations are registered or proposed for registration with the Classification Society, the Operator must ensure that the Vessel maintains such additional class notations in compliance with the requirements of the Classification Society provided that any such additional class notations are consistent with the specification of the Vessel;

- 7.1.2. ensure the Vessel complies with all other regulations and requirements (statutory or otherwise) from time to time applicable to vessels registered in the Flag State or otherwise applicable to the Vessel, her Master, officers and crew (including in relation to the number of crew) wherever the Vessel may proceed or trade and (without prejudice to the generality of the foregoing) at its own expense maintain in force for the Vessel all safety, radio, loadline and

- other certificates whatsoever and all licences and permits which may from time to time be prescribed by any legislation in force in the Flag State, any relevant port state or other applicable jurisdiction;
- 7.1.3. ensure the Operator complies at all times with any terms of the Insurances relating to the condition or inspection of the Vessel;
- 7.2. permit the Scottish Ministers by surveyors or other persons appointed by them for such purpose to board the Vessel at all reasonable times (but no more than twice in any year during the Grant Period other than in circumstances where an Event of Default has occurred) for the purpose of inspecting her, including giving access to such persons to the Master's Log and afford all proper facilities for such inspections and for this purpose give the Scottish Ministers reasonable advance notice of at least 30 days of any intended drydocking (or other underwater inspection of the Vessel) of the Vessel (whether for the purpose of classification, surveyor otherwise) and the Scottish Ministers will be entitled to be represented at such dry dock. The proper and reasonable costs of such inspections and surveys must be paid by the Operator. All inspections and surveys of the Vessel will be carried out at such times and in such places and in such manner as to minimise delaying the use and operation of the Vessel, but the Scottish Ministers will not be obliged to carry out such inspections only during periods of drydocking;
- 7.3. notify the Scottish Ministers forthwith upon becoming aware of the same by facsimile transmission thereafter confirmed by letter and in reasonable detail of:
- 7.3.1. the hijacking, confiscation, seizure, impounding, arrest, taking in execution, forfeiture or detention of the Vessel or any major part thereof or any requisition for hire at any time of the Vessel;
- 7.3.2. any requirement or recommendation made by the Classification Society or by any insurer or any competent authority which is not, or cannot be, complied with in accordance with its terms;
- 7.3.3. any death or serious or potentially serious injury to a third party or substantial damage to property, caused by, or in connection with, the Vessel;

7.3.4. any single casualty or other accident or damage to the Vessel which may be or become a Total Loss (as that expression is defined in the relevant Ship Charter or which may involve repairs or maintenance costing more than £100,000;

7.3.5. any assistance which has been given to the Vessel which has resulted or may result in a lien for salvage being acquired over the Vessel;

7.3.6. any collision or other accident or incident involving damage to the Vessel the repair cost of which is likely to exceed £100,000 (or the then equivalent in any other currency);

7.3.7. any other event which occurs in connection with the Vessel which affects or may reasonably be expected to affect the rights of the Scottish Ministers or involves or may reasonably be expected to involve any loss or liability;

7.3.8. the occurrence of any litigation involving, or criminal proceedings against, the Operator;

7.3.9. any notices, requirements or recommendations made by or on behalf of a governmental or statutory body or agency. This includes, but is not limited to, notices, requirements or recommendations made by or on behalf of:

- an Inspector under the Welfare of Animals (Transport) Order 1997 or the Animal Health Act 1981;
- the Health and Safety Executive (HSE) or any other agency of the Health and Safety Commission;
- the Scottish Environment Protection Agency (SEPA);
- Maritime and Coastguard Agency (MCA).

7.4. in the event of a casualty or maintenance referred to in paragraph 7.3.4 above, the Operator will notify the Scottish Ministers orally within 48 hours of discovery and in

- 7.5. maintain all such records, logs, manuals, technical data and other materials and documents which are required to be maintained in respect of the Vessel to comply with any Applicable Laws or the requirement of the Classification Society and, on reasonable advance notice from the Scottish Ministers, permit the Scottish Ministers or their representatives at any time to examine and take copies of such logs and other records;
- 7.6. procure that the Scottish Ministers are not at any time represented by the Operator, its contractors, agents, employees, representatives and/or sub-contractors as carrying goods or passengers or providing any other service on or from the Vessel or as having any operational interest in, or responsibility for, the Vessel;
- 7.7. do or cause to be done all things necessary to comply with all national, international and state conventions and laws (and any rules and regulations there under) applicable to the Operator and/or the Vessel including, without limitation, the Merchant Shipping Act 1995, the International Convention for the Safety of Life at Sea (SOLAS) 1974 as amended from time to time the IMO document International Convention for the Prevention of Pollution from Ships (MARPOL) and to the extent applicable, the Oil Pollution Act of 1990 of the United States of America (including, without limitation, the requirements thereunder relating to manning and the establishment of financial responsibility), the Comprehensive Environmental Response Compensation and Liability Act of the United States of America, other federal and state laws of the United States of America and international conventions, laws, rules and regulations relating to environmental matters, including those relating to discharges of oil, petroleum, petroleum products and distillates, chemicals, pollutants and other substances and the Terrorism Act 2000;
- 7.8. maintain an emergency response plan and undertake the appropriate exercises for training purposes.

Insurance Undertakings

8. The Operator hereby covenants and undertakes that throughout the Grant Period it will insure and keep every Vessel insured at its own cost and expense in respect of all matters of whatsoever nature and howsoever arising in respect of which insurance would be maintained by a prudent owner of the Vessel having regard to the situation, nature and method of operation of that Vessel.
9. The Operator hereby covenants that it will not do, consent to or permit any act or omission which might invalidate or render unenforceable the whole or any part of the Insurances and not (without first obtaining the consent of the insurers to such employment and complying with such requirements as to extra premium or otherwise as the insurers may prescribe) employ any Vessel or suffer any Vessel to be employed otherwise than in conformity with the terms of the Insurances (including any warranties express or implied therein).
10. Apply all sums receivable under the Insurances which are paid to the Operator in repairing all damage and/or in discharging the liability in respect of which such sums have been received.
11. In the event of a Vessel becoming a wreck or obstruction to navigation during the Grant Period the Operator must indemnify and hold harmless the Scottish Ministers against all costs, expenses, payments, charges, losses, demands, any liabilities, claims, actions, proceedings (whether civil or criminal) penalties, fines, damages, judgements, orders or other sanctions which may be made or asserted against the Scottish Ministers by reason that the Vessel becomes a wreck or obstruction to navigation -including, (without limitation), in respect of the removal or destruction of the wreck or obstruction under statutory powers.

PART C – SCHEDULED MAINTENANCE PROGRAMME FOR VESSELS

The Scheduled Maintenance programme for vessels will ensure that:

1. During a period of Scheduled Unavailability but only where the result of that Scheduled Unavailability will be that the aggregate period of Scheduled Unavailability for all Vessels and routes is less than 6 weeks in a Service Year (or 7 weeks in a Service Year in which Vessels are required to undergo a Special Survey drydocking), then the Timetable may be departed from provided arrangements are put in place for the delivery of Services on the Route (Lot A and/or Lot B) which is demonstrated to fully meet the anticipated demand for those Services.
2. To limit the extent of the impact of Scheduled Unavailability suffered by Shetland
 - i. The operation of Lot B Services shall as a minimum be self relieving and the Operator shall carry the anticipated demand during periods of Scheduled Unavailability. If this requires the Operator to provide an additional vessel during these periods then the suitability of any additional vessel proposed will be subject to the approval of and at the discretion of Scottish Ministers.
 - ii. Having regard to Paragraph 1 above, a replacement vessel approved by the Scottish Ministers must be provided to undertake the Services being provided by the Ropax Vessels for Lot B for any period during which there is a Scheduled Unavailability and where the result of that Scheduled Unavailability will be that the aggregate period of Scheduled Unavailability for all Vessels exceeds 6 weeks in a Service Year (or 7 weeks in a Service Year in which Vessels are required to undergo a Special Survey drydocking).
 - iii. Ropax Vessels used for Lot B Services shall be used within this Contract only on this route.
3. To limit the extent of the impact of Scheduled Unavailability suffered by Orkney
 - i. The Operator shall carry the anticipated demand between the Scrabster and Stromness ports during periods of Scheduled Unavailability of Vessels for Lot A. A

suitable replacement vessel shall be provided to undertake the Services being provided by Ropax Vessel(s) for Lot A. The suitability of any additional vessel proposed will be subject to the approval of and at the discretion of Scottish Ministers

- ii. Ropax Vessel(s) used for Lot A Services shall be used within this Contract only on this route.

Scheduled Maintenance Programme

Summary of our Vessel Maintenance Proposal

Serco Northlink Ferries (SNF) will use the following vessels for the service under new charter arrangements with the owners RBS. The vessels are MV Hamnavoe, MV Hjaltland and MV Hrossey, which are all currently operating on the Northern Isles Ferry Service being operated by Northlink Ferries Limited.

SNF will maintain these three ROPAX vessels in accordance with the requirements of the classification society, the United Kingdom Flag administration and the manufacturer's recommendations for the maintenance of equipment. Serco has long-standing and extensive experience in the maintenance of various types of ships and support vessels that are complex in nature requiring high standards of maintenance and management.

The foundation of the maintenance system will be the class survey cycle for hull and machinery items, the requirements for the maintenance and testing of SOLAS Life Saving Appliances (LSA), mandatory emergency equipment and the manufacturers' recommendations. SNF will maintain the vessels in class and fully certificated, in a safe and sound condition throughout the period of the contract to provide the maximum availability of the vessels. The fabric of the vessels will be maintained to the highest standard consistent with the Serco quality system, to ensure the appearance of the vessels externally and internally are consistent with the image of the service and appropriate for passenger comfort and wellbeing whilst they are on-board the vessels.

, We will conduct detailed condition surveys during Start-up in order to verify the the condition of each of the vessels, and will adjust our maintenance programmes accordingly.

Our Proposal for Vessel Maintenance

Maintenance will be continuous throughout the period of the contract in accordance with the schedules contained in the maintenance management system (MMS).

Maintenance will be conducted in three basic phases:

- Routine and low to medium periodicity maintenance
- Contractor assisted maintenance and repairs
- Specified work during annual and special survey docking periods.

Routine and low to medium periodicity maintenance will be carried out by Ships' staff and programmed to have no impact on the ships' service schedules. They will also carry out repairs that are within their capacity and where they have the equipment, spares and tools to

do so. Back up support will be provided by selected contractors and specialists in the event of defects occurring that are beyond the capacity of ships' personnel to rectify. Specialist contractors will be engaged to carry out specialist repairs to equipment when necessary and to assist with longer periodicity maintenance tasks when maintenance is due and there is a need to complete work on a short timescale. Efficient planning of future maintenance tasks will reduce the incidence of this occurring. Major maintenance will be planned for the annual dry docking (DD) or in water survey (IWS) periods, to ensure the maintenance requirement does not impact on the vessel service schedules during the in-service periods.

A comprehensive maintenance schedule will be provided for each vessel using AMOS maintenance software to manage maintenance efficiently and cost effectively. It will provide the tool to enable ships' staff and SNF to manage and monitor the progress of maintenance effectively and provide a transparent link between the vessels and shore management. Serco uses this system of maintenance management extensively across all the vessels managed and operated by us. We have customised the system to suit the requirements for the maintenance of the conventional and complex vessels that are currently managed and operated by Serco. The system is relatively user friendly, comprehensive and adaptable to particular needs, having been refined over the years. It will provide an integrated approach that will allow the cost effective management and control of maintenance for the Northern Isles' vessels.

The current maintenance schedules, spares stock levels and historic data will be transferred to the Serco AMOS programme during the transition period using Serco's in-house expertise. The maintenance strategy will be developed for each vessel and for the management procedures of ships' staff and shore management. Maintenance will be conducted using a combination of Original Equipment Manufacturer (OEM) recommended calendar schedules and condition-based maintenance where practical. Condition will be monitored using oil spectrum analysis, vibration analysis, thermographic imaging, non-intrusive measures and performance data as appropriate and cost effective.

The Master will be responsible for the management and progress of maintenance on-board ship and will co-ordinate the programme with the department heads. The Chief Engineer will be responsible for technical maintenance through the Master to the Technical Manager who will be responsible to the Managing Director for the overall progress of maintenance on the three vessels. Ships' staff will maintain the records of work carried out and spares used, will raise reports as appropriate and, through the defect reporting procedure, will report defects to the Technical Manager. The reporting procedure will establish categories for reporting defects to ensure the appropriate corrective action is achieved within the proscribed timescales, with minimum impact on the service schedules. The categories will be based on:

- Urgent repairs requiring immediate attention with or without contractor support
- Defects that create non-conformances in relation to the Safety Management system (SMS)
- Non-urgent defects that can be rectified by ships' staff within programmed work
- Non-urgent defects that need specialist contractor support
- Defects to be included in dry dock specifications

The Technical Manager will be responsible for providing and co-ordinating support for the rectification of defects and non-conformances requiring shore assistance. The system will be subject to annual audit to monitor progress and effectiveness.

Existing contractors on the Serco preferred contractor list will be used for support where possible, to obtain the best value for money within the contract requirements. Local contractors who currently provide support to the vessels will be subject to quality assessment and if acceptable added to the preferred list. Similarly, the reconditioning of major engine parts and equipment by class-approved methods and contractors will be used where deemed to be cost effective.

The RoPax Vessels

MV HAMNAVOE

Ship Particulars

Build year.	2002
Yard.	Aker Finnyards, Finland no 440
Owner	RBS
Operator	Northlink Orkney and Shetland Ferries
Length Over All.	112m
Breadth.	18.6m
Draft.	4.4m
GT.	8940mt
Main Engines	2 x Krupp MaK 9M32C
Propellers	2x Rolls Royce Kamewa CPP
Stabilisers	2 x Mitsubishi
Speed	19k
Passengers.	600
Beds	32
Lane meters	400
Cars	125
Port of Registry	Stromness
Flag	UK

MV Hamnavoe is currently operating as a passenger car ferry under United Kingdom flag and classified by Lloyds Register of Shipping. The vessel is assessed to be in good condition according to reports for last dry dock period in February 2010, A subsequent limited inspection carried out by Serco in December 2011 indicates that the vessel is still in a good material condition. Prior to commencing the service, Serco will carry out a full condition survey to establish a detailed view of the condition of the vessel.

The vessel is configured with two engines driving two shafts through reduction gearing, with two shaft driven alternators. No major problems have been experienced with the vessel according to the class memorandum listing and the hull and machinery have been maintained in accordance with class and manufacturer's recommendations over the ten years of the vessel's life to date. The vessel underwent a dry docking and special survey in January/February 2012. There are no conditions of class currently listed and no reported

major problems with hull or machinery items

The main engine and auxiliary engine maintenance will be carried out in relation to the OEM recommended schedules based on running hours. Both main engines have exceeded 30,000 running hours and have had the recommended major overhauls. The next overhaul will be due at 45,000 hours and review of the current running hours indicates that overhaul will need to occur between two and three years time. The three diesel alternator engines are also subject to periodic major overhaul and will occur in approximately one, two and seven years time, according to the reported average usage. Modifications and notifications published in the manufacturers' bulletins will be adopted where appropriate and included in the maintenance schedules and instructions for operation of the engines. The main engines have been burning LS IFO40 marine fuel.

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The programme of annual docking and survey periods will be:

2013	'In-water' Survey
2014	Dry dock
2015	'In water' survey
2016	Dry dock
2017	Dry dock (15year survey)
2018	'In water' survey

The existing survey listing, maintenance schedules and historic data will be transferred to the AMOS maintenance programme prior to the commencement of the service. Serco will manage the maintenance of the vessel with a class-approved maintenance management system (MMS) and will maintain a high standard of material condition and safety throughout the period of the contract.

MV HJALTLAND

Build year.	2002
Yard.	Aker Finnyards, Finland # 438
Owner	RBS
Operator	Northlink Orkney and Shetland Ferries
Length.	125m
Breadth.	19.5m
Draft.	5.3m
GT.	11230
Main Engines	4x Krupp MaK 6M43C
Speed	24k

Pax.	600
Beds	300
Lane meters	450
Cars	125
Port of Registry	Lerwick

The vessel is currently operating as a passenger car ferry under United Kingdom flag and classified by Lloyds Register of Shipping. The vessel is assessed to be in good condition according to reports for the last dry dock period in February 2010, A subsequent limited inspection carried out by Serco in December 2011 indicates that the vessel is still in a good material condition. Prior to commencing the service Serco will carry out a full condition survey to establish a detailed view of the condition of the vessel.

No major recurring problems have, reportedly been experienced with the vessel according to the class memorandum listing, and the hull and machinery have been maintained in accordance with class and manufacturer's recommendations over the ten years of the vessel's life to date. The vessel is undergoing a dry docking and special survey in February 2012.

MV Hjalmland is configured with four MaK engines, two geared to each shaft with controllable pitch propellers and two shaft driven alternators. There are two bow thrusters and Port and Starboard stabilisers fitted. The main engines have been burning low sulphur IFO380cst marine fuel.

There are no conditions of class currently listed and no reported major problems with hull or machinery items.

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Review of the current running hours and average per year indicates that Nos. 1 & 4 MEs will require major overhaul in three to five years time and Nos. two and three within the next six to seven years, assuming the average rate is maintained. The two diesel alternator engines are also subject to periodic major overhaul, which, according to the reported average usage, will occur within approximately one and two years time,

The engine maintenance will be carried out in relation to the OEM recommended schedules based on running hours. Modifications and notifications published in the manufacturer's bulletins will be adopted where appropriate and included in the maintenance schedules and instructions for operation of the engines.

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The programme of annual docking and survey periods will be:

2013	'In water' Survey
2014	Dry dock
2015	'In water' survey
2016	Dry dock
2017	Dry dock (15year survey)
2018	'In water' survey

The existing survey listing, maintenance schedules and historic data will be transferred to the AMOS maintenance programme prior to the commencement of the service.

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Serco will manage the maintenance of the vessel with a class-approved maintenance management system (MMS) and will maintain a high standard of material condition and safety throughout the period of the contract.

MV HROSSEY

Build year.	2002
Yard.	Aker Finnyards, Finland # 439
Owner	RBS
Operator	Northlink Orkney and Shetland Ferries
Length.	125m
Breadth.	19.5m
Draft.	5.3m
GT.	11230mt
Main Engines	4 x Krupp MaK 6M43C
Speed	24k
Pax.	600
Beds	300
Lane meters	470
Cars	140
Port of Registry	Kirkwall
Flag	United Kingdom

The vessel is currently operating as a passenger car ferry under United Kingdom flag and classified by Lloyds Register of Shipping. The vessel is assessed to be in good condition according to reports for last dry dock period in February 2010, A subsequent limited inspection carried out by Serco in December 2011 indicates that the vessel is still in a good material condition. Prior to commencing the service Serco will carry out a full condition survey to establish a detailed view of the condition of the vessel.

The vessel is configured with four MaK engines, two geared to each shaft with controllable pitch propellers and two shaft driven alternators. There are two bow thrusters and port and starboard stabilisers fitted to the vessel.

No major recurring problems have reportedly been experienced with the vessel according to the class memorandum listing and the hull and machinery have been maintained in accordance with class and manufacturer's recommendations over the ten years of the vessel's life to date. The Hrossey is undergoing a dry docking and special survey in March 2012. It will be next going for an annual survey in November or December 2012 and it is anticipated that this will be conducted as an 'in water' survey in agreement with the MCA provided there is no reason to dry dock the vessel at that time. The programme of annual docking and survey periods will be:

2013	In water Survey
2014	Dry dock
2015	In water survey
2016	Dry dock
2017	Dry dock (15year survey)
2018	In water survey

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PART D: PORTS

Port Facilities available to customers

1. Summary of our proposal

SNF will work closely with the Harbour Trusts and Port Authorities to ensure that the facilities are of the required standard and meet the standards of our new customer experience plan, so that the passenger journey experience extends beyond the vessels and into the port and harbour areas.

The ports that are to be used for the provision of the services are:

- Scrabster
- Stromness
- Kirkwall Hatston
- Lerwick
- Aberdeen

Our intention is to ensure that facilities at ports and harbours are in line with the total customer service experience. Consistency of brand and the elements of the service are key – information, published material, waiting areas and, of course, the staff themselves delivering excellent service.

Each port has areas, buildings and facilities that are to be leased to the successful operator or made available as part of the harbour dues payment.

Port Charges

Harbour and Berthing Dues

We have calculated the payments due to the five respective ports, based on our proposals and ensuring that revisions to the operational timetables and projected passenger figures are taken into account.

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Harbour Facilities

In respect of each of the Ports listed below, the facilities which shall be provided by the Operator are set out in the column entitled "Requirement".

Scrabster

Facilities we will specify and procure	Requirement
<p>Passenger waiting rooms (capacity, toilets, catering and disability adaptation)</p>	<p>There are currently two waiting rooms / ticket offices. One is located at the "Old Terminal Building" which is sited adjacent to the vehicle marshalling area, the other (and main) ticket office and waiting room is located in the "Transit Building" on the Queen Elizabeth Quay, adjacent to the linkspan.</p> <p>The Old Terminal Building has some seating, however, foot passengers are currently encouraged to purchase tickets and use the waiting room in the Transit Building. The Transit Building has a waiting area on the first floor with seating for 74 passengers.</p> <p>Ladies, gents and disabled toilet facilities are located in each of the following areas:</p> <ul style="list-style-type: none"> • Old Terminal Building • Ground floor of the Transit Building • 1st floor of the Transit Building <p>A small cafeteria with seating for 20 people is located in the Old Terminal Building. This is currently operated independently of the ferry service.</p> <p>There is a hot drinks vending machine located in the waiting room in the Transit Building.</p> <p>All waiting rooms and toilets are adapted for use by disabled persons</p>
<p>Arrangements for receiving, securing, holding and returning "left luggage"</p>	<p>There are currently no left luggage facilities at Scrabster</p>
<p>Real time information boards</p>	<p>For Foot Passengers - 1 Screen in the Old Terminal Building and 1 in the Transit Building</p> <p>For Car/Coach Passengers / Freight vehicles – 1 screen adjacent to the car / van marshalling area</p>
<p>Passenger access provisions to board the</p>	<p>Access and egress is via the ship's</p>

Participant's vessels	gangway which sits on the elevated passenger boarding bridge. The boarding bridge is linked to the Transit Building by a fully enclosed walkway. The access is fully disabled-friendly with no steps or other obstructions.
Vehicle marshalling spaces (car, coach and HGV)	The car / van / camper van marshalling area consists of 7 lanes x 50 metres and 4 lanes x 36 m giving a total of 494 m of lane space. A check-in cabin / barrier is located at the entrance to the marshalling area
Vehicle marshalling spaces (car, coach and HGV)	<p>Accompanied HGV & Coaches - There are 11 marked bays available at the approach road to the Queen Elizabeth Quay for marshalling of both accompanied freight and trailers. These bays are available for use by the ferry operator, but use is shared by mutual agreement with Scrabster Harbour Trust (SHT) to accommodate other port operational requirements. Depending on port operations on the Queen Elizabeth Lay By Berth which is used for other vessels / cargoes, accompanied freight vehicles are usually sent directly to the quayside to await loading. Coaches are normally sent directly to the quayside.</p> <p>Trailers - As above for accompanied freight, 11 marked bays are available. Some limited additional area is available by mutual agreement and depending on operational activities on the St Ola Lay By Berth.</p>
Longer term parking areas (car, coach and HGV along with any restrictions, charges and time constraints)	<p>Cars - 2 car parks are available for use by both the general public and ferry customers.</p> <p>Car Park 1 is situated adjacent to the Inner basin and has 52 spaces plus 3 disabled spaces. Car Park 1 is used for short, medium and long term stays.</p> <p>Car Park 2 is located adjacent to the car / van marshalling area and has 29 spaces plus 2 disabled spaces. This car park is barrier controlled with a "Pay on Departure" system. Both car parks are owned and operated by Scrabster Harbour Trust. Car park 2 is intended for stays up to 1 week only</p> <p>Charges - As per Scrabster Harbour Trust</p>

	<p>Rates and Dues – currently £10 per week or part thereof. There are additional areas of car parking available for any overspill by arrangement with SHT. There are also a couple of parking areas for “1 day parking” which are free of charge from 0700 to 2400 hrs (no overnight parking)</p> <p>Coaches - No dedicated Coach parking is provided. Coaches are normally parked in the marked freight marshalling bays</p> <p>Charges Currently £10 per week or part thereof</p> <p>HGV - No dedicated HGV parking is provided. HGV's are normally parked in the freight marshalling bays</p>
<p>Freight handling facilities</p>	<p>Accompanied freight - All freight is currently handled by Northlink / Northwards</p> <p>Unaccompanied freight - All unaccompanied freight is currently handled by Northlink / Northwards</p> <p>Livestock - There are currently no dedicated facilities in place for handling livestock at Scrabster</p> <p>There are Tugmasters used to handle unaccompanied trailers which are shared between Scrabster and Stromness. These tend to be moved on the Hamnavoe between locations as required.</p>

Stromness

Facilities we will specify and procure	Requirement
<p>Passenger waiting rooms (capacity, toilets, catering and disability adaptation)</p>	<p>There is an adequate passenger waiting area in the terminal building with Hot and cold vending machine drinks. Food is also provided by vending machine and is limited to cold snack – chocolate bars / crisps etc.</p> <p>Male and female toilet facilities are available in the terminal building.</p> <p>Disabled facilities include:</p> <ul style="list-style-type: none"> • Access facilities

	<ul style="list-style-type: none"> • Toilets • Car parking • Wheelchairs (by prior arrangement)
Arrangements for receiving, securing, holding and returning "left luggage"	Left luggage facilities are available at Stromness and SNF will continue to provide this service
Real time information boards	Information boards are located at strategic points around the harbour terminal. Information regarding next departure / next arrival, cancellations due to sea conditions and information regarding the weather will be posted on these boards
Passenger access provisions to board the Participant's vessels	Access and egress is via the ship's gangway which sits on the elevating passenger boarding bridge. The boarding bridge is linked to the Transit Building by a fully enclosed walkway. The access is fully disabled-friendly with no steps or other obstructions.
Vehicle marshalling spaces (car, coach and HGV)	The cars and small vans marshalling area has capacity for 1 vessels capacity of cars approximately 391 Lane meters
Vehicle marshalling spaces (car, coach and HGV)	The freight marshalling area at the terminal is restricted to a total capacity of 12 trailers / coaches
Longer term parking areas (car, coach and HGV along with any restrictions, charges and time constraints)	Short-stay car parking facilities are available at the terminal, however longer stay car parking is not available at Stromness. A public long-stay freight car park approximately 1.5 miles from the terminal
Freight handling facilities	<p>Tugmasters are used to handle unaccompanied trailers which are shared between Scrabster and Stromness. These tend to be moved on the Hamnavoe between locations as required.</p> <p>There are no lairage facilities or livestock pens at Stromness, however there is a large freight marshalling area available.</p>

Kirkwall Hatston

Facilities we will specify and procure	Requirement
Passenger waiting rooms (capacity, toilets, catering and disability adaptation)	<p>There is an adequate passenger waiting area in the terminal building with hot and cold vending machine drinks. Food is also provided by vending machine and is limited to cold snack – chocolate bars / crisps etc. Male and female toilet facilities are available in the terminal building. Disabled facilities include:</p> <ul style="list-style-type: none"> • Access facilities

	<ul style="list-style-type: none"> • Toilets • Car parking • Wheelchairs (by prior arrangement)
Arrangements for receiving, securing, holding and returning "left luggage"	There are no facilities for receiving and securing left luggage at Kirkwall Hatston. SNF will look to discuss this situation with the harbour authority
Real time information boards	Information boards are located at strategic points around the harbour terminal. Information regarding next departure / next arrival, cancellations due to sea conditions and information regarding the weather will be posted on these boards
Passenger access provisions to board the Participant's vessels	Passenger access provision is through the terminal building departure hall which has access to the passenger side loading facility.
Vehicle marshalling spaces (car, coach and HGV)	The cars and small vans marshalling area has capacity for 1 vessels capacity of cars approximately 391 Lane meters
Vehicle marshalling spaces (car, coach and HGV)	The freight marshalling area at the terminal is restricted to a total capacity of 20 trailers / coaches
Longer term parking areas (car, coach and HGV along with any restrictions, charges and time constraints)	The terminal has a long stay car park that is currently free of charge.
Freight handling facilities	The terminal has a separate area for livestock and lairage facilities. The area is used to prepare livestock for transport and is where the livestock cassettes are stored when not in use. There are four Tugmasters based at Hatston to move unaccompanied trailers and livestock cassettes.

Lerwick

Facilities we will specify and procure	Requirement
Passenger waiting rooms (capacity, toilets, catering and disability adaptation)	Ferry terminal designed to accommodate max.600 people, seats for 122. Full disabled access, ample toilets, vending machines only. Public concourse / access /toilets/vending machines maintained by Port Authority.
Arrangements for receiving, securing, holding and returning "left luggage"	There is a left luggage room within the terminal building.
Real time information boards	None.
Passenger access provisions to board the Participant's vessels	Covered overhead walkway between terminal building and passenger ferry
Vehicle marshalling spaces (car, coach and HGV)	279 lane metres for passenger cars/coaches.

Vehicle marshalling spaces (car, coach and HGV)	3,250 square metres of marshalling yard for accompanied freight/drop trailers.
Longer term parking areas (car, coach and HGV along with any restrictions, charges and time constraints)	Car parks (free) – 22 short term spaces, 90 long term spaces, 6 staff spaces, 13 car hire spaces. No overnight parking in short term spaces. No HGV parking, and HGVs not to exceed 24 hours in marshalling yard unless by prior arrangement.
Freight handling facilities	The terminal has a large freight and lairage area with 5 Tugmasters available to move trailers and livestock cassettes around the port.

Aberdeen

Facilities we will specify and procure	Requirement
Passenger waiting rooms (capacity, toilets, catering and disability adaptation)	There is an adequate passenger waiting area in the terminal building with Hot and cold vending machine drinks. Food is also provided by vending machine and is limited to cold snack – chocolate bars / crisps etc. Male and female toilet facilities are available in the terminal building. Disabled facilities include: <ul style="list-style-type: none"> • Access facilities • Toilets • Car parking
Arrangements for receiving, securing, holding and returning “left luggage”	There are facilities for left luggage and SNF are proposing to maintain this left luggage service.
Real time information boards	Information boards are located at strategic points around the harbour terminal. Information regarding next departure / next arrival, cancellations due to sea conditions and information regarding the weather will be posted on these boards
Passenger access provisions to board the Participant’s vessels	Passenger access provision is through the terminal building departure hall which has access to the passenger side loading facility.
Vehicle marshalling spaces (car, coach and HGV)	In the terminal there is capacity for approximately 70 cars within the car / small van marshalling area.

Vehicle marshalling spaces (car, coach and HGV)	There is capacity for Approximately 30 trailers / coaches with additional space that is identified for Lairage
Longer term parking areas (car, coach and HGV along with any restrictions, charges and time constraints)	There is additional car parking capacity within the terminal and in the immediate vicinity of the port.
Freight handling facilities	The terminal has a large freight and lairage area with 5 Tugmasters available to move trailers and livestock cassettes around the port.

Port Facilities available in emergencies

Ports of refuge are defined as – *A port, harbour or sheltered anchorage where a ship in need of assistance can take action to stabilise her condition, reduce the hazard to navigation, protect / save human life and the environment. – IMO Resolution A.949(23)*

The ports we have identified as potential Ports of Refuge include all five ports that are to be used in the provision of the Services, as an emergency, accident, breakdown or incident could occur at any point along the service route and the ability to take refuge in the nearest port may result in either a vessel returning to its port of origin or diverting to another. The ports of origin and destination for the provision of the Services are as follows:

- Scrabster Lot A & B
- Stromness Lot A & B
- Kirkwall Lot A & B
- Aberdeen Lot B
- Lerwick Lot B

Furthermore we have identified a number of ports along the East Coast of Scotland and the Northern Isles that would provide refuge in an emergency and provide varying levels of passenger and freight facilities. Our strategy is to identify a nearby alternative to each of the specified service ports that would act as a Port of Refuge, should an emergency occur when access to the main port has been prevented.

We should note that any port along the proposed routes with the appropriate clearances to accept any one of our vessels will be able to act as Port of Refuge in circumstances of dire emergency. However, we have identified a number of specific ports where the facilities and location make them more appropriate as preferred refuges where the circumstances allow. The service routes are as follows:

- Scrabster – Stromness,
- Aberdeen – Kirkwall – Lerwick,
- Aberdeen – Lerwick,

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As a result of the periodic inaccessibility of Aberdeen Harbour we have Identified Rosyth as the most suitable alternative port, where passengers and goods could be disembarked from the ship safely and conveniently.

Our list of preferred Ports of Refuge and the facilities that are available at each port are shown in the following table:

Port of refuge Data	Ports of Refuge with all Facilities necessary to Support normal operation of the vessels (Passengers and Freight)						Ports of Refuge with Reduced Facilities			
	Port/Assets	Scrabster	Stromness	Kirkwall	Lerwick	Aberdeen RoPax	Aberdeen RoRo Freight	Rosyth (Emergency / Closure of Aberdeen only)	Sullom Voe (Emergency Only)	Peterhead (Emergency Only)
Position	58° 37'N 3° 33'W	58° 58'N 3° 17'W	58° 59'N 2° 57'W	60° 12'N 1° 10'W	57° 09'N 2° 03'W	57° 09'N 2° 03'W	56° 01'N 3° 27'W	60° 27'N 01° 18'W	57° 30'N 01° 47'W	57° 41'N 04° 10'W
	North Scotland	West Orkney Is	Central Orkney Is	Central Shetland Is	East coast Scotland	East coast Scotland	Firth of Forth	Construction Jetty	North East Scotland	North East Scotland
Berth	Queen Elizabeth Pier	North Pier	Halston Ferry Terminal Pier	Holmsgarth No 2 Berth, North Harbour	West end Blaikie's Quay, North end Victoria Dock	Matthews Quay	RoPax Ferry Berth	Construction Jetty	Albert quay	Invergordon Service Base
RoRo Linkspan	Yes. 150t 5m roadway	Yes.	Yes	Yes	Yes	Yes	Yes	No (fixed ramp)	No	No
Length	155m	131m	162m	151m (98m quay 55m dolphin)	120m	160m	220m	152 m	152 m	Over 152 m
Depth at CD	9.0m	6.0 to 7.0m	8.0m	8.0m to 11m	6.0m	9.0m	7.5m	9.9m	8.5m	7.1m
Passenger Terminal	Yes (on QE Pier)	Yes	Yes	Yes	Yes	N/A	Yes	No	No	No
Car Passenger Terminal	Yes	No	No	No	No	N/A	No	No	No	No

Car marshalling area	Yes	Yes	Yes	Yes	Yes	N/A	Yes	No	No	No
Truck marshalling area	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Security	Limited	Limited	Yes (ISPS compliant)	Yes (ISPS compliant)	Yes (ISPS compliant)	Yes (ISPS compliant)	Yes (ISPS compliant)			Yes ISPS Compliant
Baggage x-ray scanner	No	No	No	No	Yes	N/A	No	No	No	No
Lairage buildings and pens	No	No	Yes	Yes	Yes	Yes	No	No	No	No
Passenger Sky walk gangway	No	Yes	Yes	Yes	Yes	N/A	No	No	No	No
Tugmaster prime movers	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Mafis	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No
Fuel availability	Yes by truck	Yes by truck	Yes by truck	Yes	Yes by truck	Yes by truck	Yes by truck	Yes	Yes, Pipeline and Truck	Yes by Truck
Repairs	Yes	Limited	Limited	Yes	Extensive	Extensive	Yes	Yes	Yes	Yes
Supplies	Yes	Limited	Limited	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Airport connections	Airport at Wick 21mi	Airport at Kirkwall	Airport at Kirkwall	Sumburgh airport	Aberdeen Airport	Aberdeen Airport	Edinburgh airport	Scatsta airport 3 miles	Aberdeen Airport	Inverness airport
Road	A9 to Inverness	Island roads	Island Roads	island roads	A90 from Edinburgh and A96 to Inverness	A90 from Edinburgh and A96 to Inverness	mainland UK motorways	A970 to Lerwick	A90 To Aberdeen and Edinburgh	A9 to Inverness
Train Connection	Yes (Thurso)	No	No	No	Yes main line to Edinburgh	Yes main line to Edinburgh	Yes	No	No Aberdeen 29 miles	Yes
Hospital	at Thurso	at Kirkwall	Yes	Yes	Several	Several	Yes	Yes	Yes	Yes
Helicopter landing facilities	1 mi W of Thurso	No. emergency car park	At Kirkwall airport	Sumburgh airport	Aberdeen Airport	Aberdeen Airport	Dockyard	Scatsta airport 3 miles	Aberdeen 29 miles	Inverness airport

Northern Isles Ferry services
 Provision of Public Services

Executed Contract
 Schedules 4-6

Lifeboat	Yes RNLI Thurso	Yes RNLI	Dunbar RNLI (35 mi)	Yes RNLI Aith and Lerwick	Yes RNLI	Yes RNLI				
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PART E: FUNDED ASSET REGISTER

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SCHEDULE 6 - START- UP PLAN

The Start-Up Plan must be developed in accordance with Clause 7.

The Operator must comply with the following Start-Up Plan:

1. Summary of our proposal

Serco NorthLink Ferries (SNF) views the Start-up for Northern Isles Ferry Services as the process of:

- Handing over the management and operation of the current NorthLink Ferries business and associated employees to SNF
- Seamlessly transitioning to the new Service Contract without service disruption
- Enabling all the necessary Mobilisation activities to happen to ensure SNF has all the requirements in place to take over the assets
- Understanding the key risks to the service during transition and mitigating those with clear communication and strong leadership
- Collaborating with Transport Scotland throughout the period to align goals and objectives
- Managing the change for staff currently employed by NorthLink Ferries

Our approach for Northern Isles is to capture all the critical activities in the groups shown below and what we plan to undertake in each phase of the overall transition to the new Serco NorthLink Ferries operation.

The transition will be led by a very experienced Transition Director, Jonathan Riley, who has led a number of complex change programmes. He will be supported by a team of people, some of whom will have been involved in the transition of other similar contracts in marine and transport, with some going on to take up roles within the contract.

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Our project management process for delivery of the Start-up Plan broadly follows the UK Government's recommended PRINCE2 process-based project management method, complemented by Serco's expertise and extensive experience of managing transitions of large Government organisations over many years.

Start Up Costs

To ensure the effective transition of the contract to SNF, we have identified a number of essential tasks that will be carried out, subject to approval from Scottish Ministers. These tasks have been segmented into categories outlined below with associated costs. Our normal procedure in this situation is to allow full transparency to our client regarding the transition costs we have incurred, and where actual costs are lower than those in our budget, Serco invoice Scottish Ministers for the actual amount. This especially applies to our

indicative costs in relation to setting up and agreeing the lease of the vessels.

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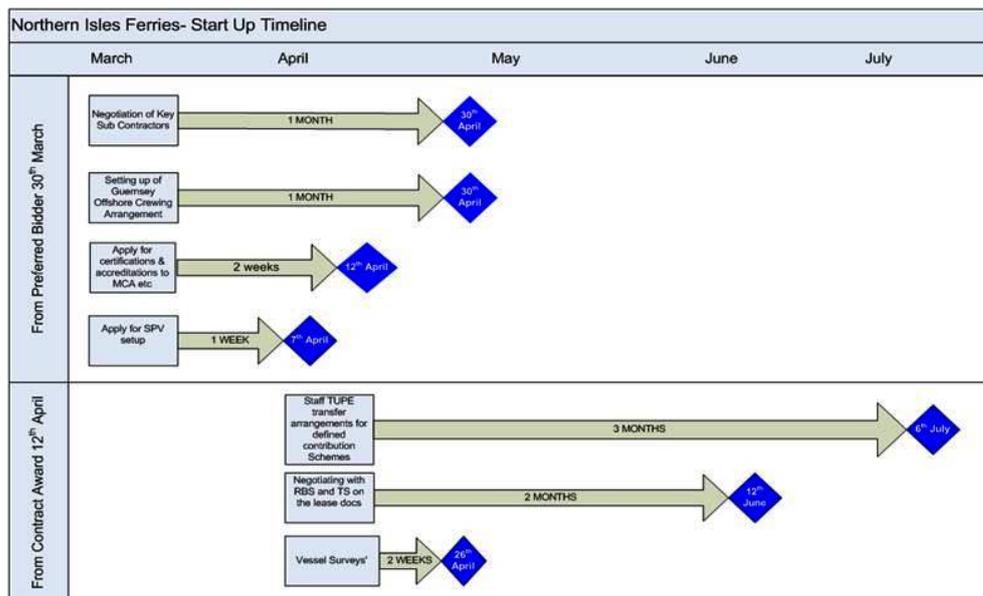
The items within the business improvement section are considered necessary for this contract in order to bring it into line with comparable ferry services standard business processes, and to improve customer experience.

Operators Start Up Plan

The Start Up Plan contains the list of activities, contracts, leases, approvals and certification as required enabling SNF to commence the contract. It will be produced and agreed with the Scottish Ministers within 14 days of the mobilisation date. The plan, as detailed in the programme , sets out in detail the elements of the Start up.

SNF will ensure that delivery on Commencement Date will meet the standards for operational performance, security and reliability set by Scottish Ministers'. Our Start-up plan shows the nature of measures to be undertaken during the period from Award of Contract to Commencement Date on the 5th July 2012 and ensures that the quality of service proposed will be provided on Commencement Date and thereafter throughout the Contract period. Our Start-up plan is based on there being a three month period for transition based on the dates set out in the ISFT. In the event that Scottish Ministers are not able to meet the contract award date then Serco will use best endeavours in conjunction with Transport Scotland and David MacBrayne Limited to still achieve the 5th July commencement.

The Plan groups together the areas set out in the ISFT and detailed activities we have identified into the following elements which are captured onto the chart below showing the critical activities and links:



Legal and Commercial

There are a number of key commercial areas that are absolutely critical in the Start-up period to enable the contract to commence and for Serco NorthLink Ferries to operate the services. These are

- Registration and Transfer of the NorthLink Brand name to Serco Limited
- Project bank accounts opened with RBS as stipulated in the Lease documentation
- New Tripartite agreement with Owners (Royal Bank of Scotland, Scottish Ministers and Serco) to be drawn up and signed
- New charter parties of vessels to Serco Limited in agreement with vessel owners
- Review of areas currently sub-contracted and either novation of existing contracts or setting up new ones
- A Fuel Management Programme will be put in place looking at how best to purchase and considering a range of options such as through Serco, in conjunction with other similar operators etc.

(i) Programme for taking delivery of vessels and for procuring the availability of such other vessels as may be required for the provision of the Services:

As outlined in the Start Up Gantt Chart, we have a detailed programme for taking delivery of the vessels and arrangements in place for the provision of services, as summarised below:

- Register of new demise owner with ship's registry.
- Register new demise owner, ship manager and DPA with MCA and classification society.
- Arrangements regarding repair and dry docking
- Obtain operational management (ISM and ISPS) for SNF and register with MCA and classification society under Serco's ISM DOC
- Service agreements and permissions with all Port Authorities for vessel operations within port confines

It is intended that the ships Hjaltland, Hrossey, Hamnavoe, Helliar and Hildasay will be used by SNF and there is no requirement to procure other vessels at the outset of the contract. SNF will transfer the roll on-roll off passenger ships (RoPax) 'Hamnavoe', 'Hjaltland' and 'Hrossey' by a novation agreement and tripartite agreement with the owners of the vessels the Royal Bank of Scotland. New Charter Parties will be drawn up and signed before delivery. These documents will cover both the incoming operators and outgoing operators. The documents will be signed before handover of the contract with execution taking place at handover hour.

Prior to contract award we will conduct a rigorous due diligence program which will include condition surveys of all vessels and key assets. In addition prior to taking delivery Serco will carry out an on-hire survey. It is likely that the owners will wish to carry out an off-hire survey at the same time, each party paying for their own surveyor. Deficient items/repairs required and agreed between the two surveyors will be adjusted in costings. Some of the vessels will be at sea at handover time and it is essential that surveyors are present when sounding of fuel and fresh water tanks and an inventory of lubricating oil (in case of bareboat chartered vessels) are recorded. Consumable victuals and stores remaining on board will need to be accounted for and costed. Serco would only be responsible for fuel, lubricating oils (on bareboat chartered ships), fresh water and consumable victuals and stores remaining on board at the hour of delivery.

(ii) Identify all Port & Harbour and land-based facilities necessary for the provision by the Operator of the Services;

The table on the following page shows a list for each harbour and down the left column land based facilities required to operate the service. There are no deficiencies.

Port and land-based facilities

2.5.1 (3) Port Data									
Port/Assets	Scrabster	Stromness	Kirkwall	Lerwick	Aberdeen RoPax	Aberdeen RoRo Freight	Rosyth (Emergency only)	Spread across ports	Notes
Position	58° 37' N 3° 33' W	58° 58' N 3° 17' W	58° 59' N 2° 57' W	60° 12' N 1° 10' W	57° 09' N 2° 03' W	57° 09' N 2° 03' W	56° 01' N 3° 27' W		
Berth	North Scotland Queen Elizabeth Pier	West Orkney Is North Pier	Central Orkney Is Halston Ferry Terminal Pier	Central Shetland Is Holmsgarth No 2 Berth, North Harbour	East coast Scotland West end Blaikie's Quay, North end Victoria Dock	East coast Scotland Matthews Quay	Firth of Forth RoPax Ferry Berth		
RoRo Linkspan	Yes. 150t 5m roadway	Yes.	Yes	Yes	Yes	Yes	Yes		double span, upper and lower
Length	155m	131m	162m	151m (98m quay 55m dolphin)	120m	160m	220m		
Depth at CD	9.0m	6.0 to 7.0m	8.0m	8.0m to 11m	6.0m	9.0m	7.5m		
Tidal Range	4.0m springs 1.8m neaps	2.9m springs 1.3m neaps	2.4m springs 1.1m neaps	1.6m springs 0.8m neaps	3.7m springs 1.8m neaps	3.7m springs 1.8m neaps	6.0m springs 4.5m neaps		
Pilotage compulsory Yes/No	No	Yes	Yes	Yes	Yes	Yes	Yes		
Pilotage exemption available Yes/No	Not applicable	Yes	Yes	Yes	Yes	Yes	No		
Linesmen availability Yes/No	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Tug boat availability	No	Yes	Yes	Yes	Yes	Yes	Yes		
Passenger Terminal	Yes (on QE Pier)	Yes	Yes	Yes	Yes	N/A	Yes		
Car Passenger Terminal	Yes	No	No	No	No	N/A	No		
Car marshalling area	Yes	Yes	Yes	Yes	Yes	N/A	Yes		
Truck marshalling area	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Weighbridge	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Shore Power	No	Yes	Yes	Yes	No	No	Yes		
12m double deck Livestock containers							No	47 containers	owned by Scottish Govmnt
6m double-deck livestock containers							No	2 xontainers	owned by Scottish Govmnt
2m livestock containers for bulls							No	4 containers	owned by Scottish Govmnt
Security	Limited	Limited	Yes (ISPS compliant)	Yes (ISPS compliant)	Yes (ISPS compliant)	Yes (ISPS compliant)	Yes (ISPS compliant)		
Baggage x-ray scanner	No	No	No	No	Yes	N/A	No		owned by Scottish Govmnt
Lairage buildings and pens	No	No	Yes	Yes	Yes	Yes	No		
Passenger Sky walk gangway	No	Yes	Yes	Yes	Yes	N/A	No		
Passenger bus	No	Not needed	No	No	No	N/A	Not known		
Heavy weather mooring ropes	Yes	Yes	Yes	Yes	No	No	No		
Baggage and dive trolleys	Yes	Yes	Yes	Yes	Yes	N/A	No		
tow tractors for trolleys	Yes	Yes	Yes	Yes	Yes	Yes	No	distributed throughout ports	
Forklift trucks	Yes	Yes	No	Yes	Yes	Yes	Not known	Leased	
Tugmaster prime movers	Yes	Yes	Yes	Yes	Yes	Yes	Yes	15 Terberg Tugmasters	
Tugmaster goose-necks	Yes	Yes	Yes	Yes	Yes	Yes	No	adequate	
Horsebox trailers	Yes	Yes	Yes	Yes	Yes	Yes	No	2xdouble axle lfor Williams horseboxes	
Box trailers	Yes	Yes	Yes	Yes	Yes	Yes	No	1xdouble axle box trailer	
Cherrypicker							No	1xCherrypicker shared	
Mafis	Yes	Yes	Yes	Yes	Yes	Yes	No	several 6m flat Mafi type trailers	
20ft ISO steel storage containers	No	No	No	No	Yes	Yes	No	Several Steel TEU	
Stocks of deicer and sawdust	Yes	Yes	Yes	Yes	Yes	Yes	No		
Fuel availability	Yes by truck	Yes by truck	Yes by truck	Yes	Yes by truck	Yes by truck	Yes by truck		
Fresh Water availability	Yes alongside QE pier	Yes alongside N Pier	Yes alongside Halston Pier	Yes alongside Holmsgarth Pier	Yes	Yes	Yes		
Garbage disposal	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Sullage disposal	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Oily water disposal	Yes	Yes	Yes	Yes	Yes	Yes	Yes		
Repairs	Yes	Limited	Limited	Limited	Extensive	Extensive	Yes		
Supplies	Yes	Limited	Limited	Limited	Yes	Yes	Yes		
Air Communications	Airport at Wick 21mi A9 to Inverness	Airport at Kirkwall Island roads	Airport at Kirkwall Island Roads	Sumbergh airport island roads	Aberdeen Airport A90 from Edinburgh and A96 to Inverness	Aberdeen Airport A90 from Edinburgh and A96 to Inverness	Edinburgh airport		mainland UK motorways
Road									
Train Connection	Yes (Thurso) at Thurso	No at Kirkwall	No Yes	No Yes	Yes main line to Edinburgh Several	Yes main line to Edinburgh Several	Yes Yes		
Hospital									
Helicopter landing facilities	1 mi W of Thurso	No. emergency car park	At Kirkwall airport	Sumbergh airport	Aberdeen Airport	Aberdeen Airport	Dockyard		
Lifeboat	Yes RNLI Thurso	Yes RNLI	Yes RNLI	Yes RNLI	Yes RNLI	Yes RNLI	Dunbar RNLI (35 mi)		other inshore L/Bs closer

(iii) Programme for procuring such facilities and the timetable for procurement

Our programme for procuring such facilities and the timetable for procurement assumes we will take over all existing facilities owned or leased by NorthLink Ferries Limited. It is not anticipated that further equipment will be required for SNF's operation of the Services. During mobilisation, an arrangement will be made with the incumbent operator for taking over leases of equipment, where necessary. Included in the Start-Up Plan (Gantt Chart), we have included our programme for procuring all Port & Harbour and land-based facilities.

The tasks involved in this process are summarised below and timetabled within the Start Up Gantt Chart in section 1.5.2:

- Service agreements & permissions with all port authorities for vessel operations within port confines.
- Transfer of leases on all offices, buildings and sheds to SNF
- Transfer and equipping of owned & leased offices, customer contact centre & IT equipment
- Agreement on use of berths & slot times
- Agreement on lay-over & lay-by berths
- Arrangements and agreement on call-out of port facilities
- Appoint port agents
- Agreement with port stevedore contractors
- Transfer of port equipment (gangways, prime movers, top loaders, fork lifts, car. buses, etc.) and maintenance contracts
- Lease of port based mechanical handling equipment (fork lift truck & Aberdeen tractor)
- Harbour dues agreement
- Sullage & ballast water removal arrangements
- Fuelling & watering arrangements
- Stores delivery

(iv) Programme for obtaining passenger certificates and any other Maritime and Coastguard Agency (MCA) authorisations;

Serco has held preliminary discussions with the MCA. All vessels, whether bareboat chartered or demise ownership by SNF, will have the demise ownership transferred from NorthLink Ferries Limited to SNF. Surveys and new certificates (and in particular the Passenger Safety Certificate) will be arranged with the MCA and Lloyd's Registry during mobilisation and prior to delivery, with execution at delivery time and date. Arrangements will be made with the MCA to have the Continuous Synopsis Record on board all vessels updated, to reflect the transfer of operational control in accordance with the International Maritime Organisation (IMO) SOLAS (Safety of Life at Sea) regulation XI-5.

The IMO ISM (International Safety Management Code) will be based on Serco's Safety Management System as adopted for all marine and transport operations within Serco Ltd. The Serco Safety Management System complies with the ISM by being a structured and documented system enabling our personnel to implement effectively Serco's safety and environmental protection policy. A Serco Limited DOC (Document of Compliance) was issued by the MCA on 12 June 2008 for 'Passenger ships, passenger high speed craft and other cargo ships' (this document was submitted in our prequalification response). Currently there

are 19 ships operated under the Serco Limited DOC including five being added shortly from INS (nuclear waste ships). This means that Serco is compliant with the requirements of SOLAS and the ISM Code. The Safety management System will be adapted for SNF and approved by the MCA, who will in turn issue a Safety Management Certificate for each individual ship operated by SNF (this is usually issued up to six months after the new DOC owner has taken over management of the ship) signifying that the shipboard management operate in accordance with the approved Safety Management System.

We will undertake a review of NorthLink's current safety, quality and environmental management systems to assess their fitness for purpose and any need to amend or replace with Serco's existing suite of plans. Further activities include:

- Changes to ISM/ISPS certificates to ensure they reflect SNF
- Update to ISM code (Serco Limited Document of Compliance)
- Update to ISPS code (Serco Limited)
- Safety Manuals - review/replace existing NorthLink Ferries Limited Manuals as necessary
- Dangerous Goods Policy
- Ensure accident reporting policy and system is in place

- Quality
 - Quality Management Strategy and Plan updated in accordance with contract procedures (Serco Limited BS EN ISO 9001:2000)
 - Health & Safety Strategy Plan updated in accordance with contract procedures
 - Security & Business Continuity Plans updated in accordance with contract procedures

- Environment
 - Oil and Environmental Pollution avoidance manual
 - Fuelling procedures
 - Environmental Management Plan
 - Ship Energy Efficiency Management Plan (SEEMP) mandatory for all ships from 2013
 - Waste minimisation and management.
 - Pollution control and minimisation
 - Effect on marine life, health and protection of marine mammals
 - Serco's Five Commitments environmental sustainability framework embedded in business

(v) Arrangements for providing appropriate insurances;

Our insurers will provide Protection & Indemnity (P&I) insurance, Hull & Machinery (H&M) insurance cover for the vessels at premiums commensurate with our good record of claims. Our insurers will arrange all other insurances to cover such other items as port equipment, vehicles etc.

We will finalise insurance including vessel insurances – Hull & Machinery (H&M); Protection & Indemnity (P&I) and War Risk and put in place other appropriate insurances (Employer's Liability, Public Liability, Business Interruption, Property Damage, Motor etc.)

(vi) Key employees required for the provision of the Services by Serco NorthLink Ferries

The management organisation chart is shown below together with key employees' role specifications.

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(vii) Our programme for any transfer of staff (onshore and seagoing) and (where necessary) familiarisation and training including, without limitation, disability and awareness training

SNF will, from mobilisation until point of service commencement, engage with NorthLink Ferries Limited employees' representatives (unions) on the transfer of staff under TUPE, arrangements. An employee communication plan will be implemented, providing the detailed information staff need to mitigate their apprehension of transitioning to Serco. We will develop a road show type engagement plan with our internal communications team to deliver this plan.

All transferred staff will receive Serco induction training where the emphasis will be on quality, health, safety and environmental training which will be introduced during an induction seminar that each staff member will attend soon after Commencement Date. Serco's vast experience of training staff who are involved in safety critical government marine services will be the foundation of SNF's training programme, with full transparency and compliance assured. Training will be provided during the mobilisation period, by Serco's dedicated HR team within our Transition Team.

Serco will employ a well known crewing agency based as employer/crew manager for the sea going staff. Discussions have been held with this agency and will be finalised during mobilisation. All shore staff will become employees of Serco.

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The process during Start-up includes

- Transfer of existing NorthLink Ferries Limited staff to Serco
- Transfer of existing NorthLink shore and sea staff to Serco on shore or off shore contracts
- Dialogue with the officers' union (Nautilus International) the seafarers' union (RMT) and any shore union representing shore workers
- Appointment of the senior management team for Serco NorthLink Ferries
- Appointment of Managers and staff to new or vacant roles.
- Road show visits by Start-up team during mobilisation to cover staff and stakeholders

Another key activity will be the appointment of the ship manager (Ship Management will be carried out by Serco Limited using our ISM DOC issued 12 June 2008 for passenger ships, passenger high speed craft and other cargo ships). Ship Management in accordance with the ISM will be carried out in-house by SNF with input and assistance from Serco Limited.

(viii) Arrangement for taking over and honouring bookings for the services made, and in respect of which payment, in whole or in part, may have been received by the incumbent

SNF will work collaboratively with Transport Scotland and NorthLink Ferries Ltd to ensure that customers experience a seamless transition to SNF and that all tickets sold by the incumbent operator are honoured. We understand that we will have full access to the relevant booking information and anticipate being provided with all data relevant to NorthLink's live bookings.

Serco has significant IT expertise that we will use to support us in achieving a smooth transition without any negative impact on customers.

We will write to, or email, customers (depending on their booking method) who have booked travel for July and August to welcome them to SNF in advance and to reassure them that we look forward to seeing them for their journeys as planned.

Bookings will have been taken by NorthLink for the whole of 2012. If any significant alterations are implemented prior to year end, we will inform passengers of service changes.

Transfer of records and associated fare amounts from the NorthLink ticketing system for the pre-sold tickets. Agreement will need to be made between NorthLink Ferries Limited and SNF as to the split of revenues for passenger and freight aboard vessels at delivery time in line with the commitment from Scottish Ministers for a proper accounting transfer of pre-paid revenues relating to journey bookings made right up to the date of transfer.

(ix) Arrangements for servicing replacement assets in the vessels e.g. sheets, uniforms, spares, systems, etc

Such arrangements will be undertaken by the Transition Team who will meet with all existing, and potentially new suppliers of all replacement assets and agree new contracts.

Prior to 6th July 2012, SNF will set up new suppliers and distribution contracts that are in place in time for service delivery. We have already made contact with cleaning companies and catering companies to supply day to day items for all vessels. SNF will also carry out a full stock take of what is currently on vessels and ports prior to 6th July, ensure correct supplies are ordered and delivered on time.

All Port and Vessel staff will then have the responsibility to keep stock supplies at the required amount; this will be regularly audited by the Hotel and Catering Manager. All uniformed staff will be given a new uniform with current branding prior to the new service launch in January 2013; replacement uniform will be available on request. Vessel inspections will be carried out at Preferred Bidder stage in order to ascertain the need to replace assets on all vessels. Following on from this, regular inspections and audits will be carried out to record any deterioration in assets and the initiate action or replacement.

There are a number of processes internal to any business that needs to be arranged prior to taking over a contract like this. These processes are key supporting ones to ensure the business can operate properly and in Serco's case that are integrated into the wider Serco supporting systems. These include

- Finance
 - Management accounting processes
 - Banking arrangements
 - Financial reporting arrangements
 - Payroll
 - Purchasing and invoicing

- IT

We have assumed that all IT equipment is fit for purpose when transferred, and will carry out the usual survey during start-up to verify

- Review of NorthLink's current IT systems and support
- Migration of data into Serco's systems for accounts, payroll, purchasing, training & employment records

- Modifications to IT network and hardware/software refresh
- TRAP (Technology Risk Action Plan) has been carried out and relevant points carried forward into the delivery phase
- New website design and design of new App
- Information Management Plan managed in accordance with contract procedures
- Procurement
 - Arrangements for purchasing in place linked to Serco and in accordance with ISO 9001 quality assurance best practice
 - Traders identified, terms negotiated and contracts re-negotiated or awarded
 - Arrange to either take over existing storing procedure and preferred providers (chandlers), or renegotiate with providers and formulate new storing policy

Additional investment items

For the new catering offer, new galley equipment (cooking pots and pans etc) will be purchased and the customer facing equipment (crocery etc) will be replaced. A start up budget of £20k per vessel is included in the start-up costs shown earlier.

(x) Arrangements for obtaining customer data and complying with the Data Protection Act 1998 and for registering an agreed brand or service name for use in connection with the Services:

Serco has vast experience in the management and transferring of data complying with the Data Protection Act 1998. The Customer Service lead in Transition will be responsible for mobilising customer data on to our website and from commencement of service the Customer Services Director will remain responsible for all future compliance. SNF Data Protection Policy will be briefed to all staff to ensure the implementation of robust processes for staff to follow in each department.

The HSQE Manager will carry out a full audit once the data has been transferred and briefings have been carried, closing down any issues that may arise, audits will then be carried out twice yearly to ensure SNF remain fully compliant. The Data protection policy will be available on our web site for all customers to read.

Customer data will be collected and stored when customers register on our new website. Our booking tool (reservation system) which will be Payment Card Industry Data Security Standard (PCI DSS) compliant has increased controls around cardholder data to reduce credit card fraud via its exposure. Customer details will be stored for up to seven years.

We will also collect information from customers by the use of cookies and web beacons. Cookies enable a website to remember who a customer is, such as following registration. We will use cookies to verify a customer's identity during log in. No cookies on our sites are served or used by third parties. Serco will keep all information secure by taking the appropriate technical and organisation measures against its unauthorised or unlawful processing and against its accidental loss, destruction or damage. This does not include normal internet email which is insecure.

(xi) Stakeholder engagement and governance setting out consultation proposals with Local Authorities, RTP's and other key partners/stakeholders

Given the importance of the Planning Phase between the submission of the final bid and notice of Preferred Bidder, Serco will continue to carry out a series of activities in areas where time-constraints are important or where risks are high, as well as where relationship building

with the relevant agencies is vital to a successful transition. Serco recognises that a successful and effective transition involves the interaction between a number of bodies, sound governance, defined communication strategies to ensure that risks are mitigated.

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(xii) The arrangements for introducing new branding to the services (if proposed) including replacement of uniforms and changes to vessel livery

Serco NorthLink Ferries (SNF) will continue to use the existing NorthLink brand.. There is no intention to change the vessel livery, but uniforms will be changed (except sea going officers who wear standard Merchant Navy uniforms).

, We have proposed service improvements including: -

- On the first day of service, new seasonal menus will be introduced on both routes
- There will be no further changes beyond new menus until end of September, when the à la carte restaurants will close on the Shetland Islands service,
- From the date of closure of the à la carte restaurants, we will introduce the premium all inclusive concept as a trade up option at the point of booking and on board. Although lounge conversion would not have taken place and take up is likely to be modest, it is financially more beneficial to close the restaurant and re-open post vessel conversion. Revenue loss during this period would be negligible and crewing could be reduced from October to January
- New offers, service specifications and staffing levels will be introduced in January 2013

(xiii) Operators Programme for co-operating with the Incumbent Operator and agreeing with the Scottish Ministers the measures that will be taken to secure the seamless transition of services through the incumbent Operator's handover assistance plan.

In order to ensure the seamless transition from the incumbent operator to SNF, we will have a Transition Director, Jonathan Riley, with extensive experience in delivering complex transport contracts, within challenging deadlines. We fully acknowledge that transition success is very much dependant on SNF having a collaborative relationship with NorthLink from the outset that is both transparent and professional, ensuring service excellence is at the forefront of all decisions.

As such, SNF will finalise the joint plan with the incumbent. This relationship will be driven by our Transition Director and the core Transition Team, who will establish a Review Group with NorthLink's Managing Director and delegated staff. Together, SNF and NorthLink will agree upon the operational tasks and timeframes required to deliver the smooth transition, as defined in our Start Up Plan and Gantt chart, yet also meeting the tasks and timeframes outlined in the NorthLink Handover Assistance Plan. The key objectives will be passenger safety, service reliability and clear communication to staff, customers and key stakeholders.

The programme will include:

- Early agreement regarding access to NorthLink staff, frequency, dates and duration of road shows
- Access to vessels for due diligence surveys
- Access to Port facilities and terminal buildings/ offices

- Review of Port equipment
- Review of IT equipment
- Questions & Answers for all staff
- Data review including TUPE, revenue and bookings, asset information, safety management plan
- Trade Union Engagement

Weekly meetings will be scheduled and hosted by SNF in order to agree on actions, resolve issues and update Transport Scotland on progress within the Start Up Phase. Our Transition Team will be based in and around the Northern Isles to facilitate regular meetings and contact with key stakeholders

If it transpires that operational issues are unable to be resolved through our attempts to be open and co-operative with NorthLink and that the contract transition is at jeopardy, SNF will be consider escalating the matter to Transport Scotland requesting further advice and possible intervention. .

(xiv) Operators Project Management process for delivery of the Start Up Plan

Serco will commission a dedicated Transition Team, utilising tried and tested PRINCE 2 Project Management methodologies. The Transition Director will have overall responsibility of the Start Up Plan and will ensure that all deadlines are met within the agreed budget and constraints set by the Scottish Ministers.

If unable to utilise NorthLink office space, the Transition Team will set up office in Kirkwall, with Headquarters in Edinburgh and with teams based locally to the combined ferry services of Pentland Firth and Aberdeen, Orkney Islands and Shetland Islands. All Start Up activities will be monitored and managed in accordance with time lines and milestone events, as laid out in the detailed Gantt Chart that outlines the entire Start Up Programme. All contingencies, time/resource details, dependencies and potential problems will be highlighted in the Start-up Plan.

Our planning and implementation processes will identify and mitigate the phase-in and transitional risks to NorthLink and ourselves, as well as clearly identifying the resources required and the contributions necessary from all parties to ensure that the mobilisation period is a success. The plan will be comprehensive yet flexible enough to meet the needs of all stakeholders that guarantee the safe and efficient delivery of ferry operations and ship management services.

(xv) Operators Activities - Post Commencement Activities (5th July onwards)

Post service comment the operator will continue with all the work around the revised dry docking arrangements including the annual maintenance plan and for 2012 only undertaking the on board refurbishment of the three ROPAX vessels. The activities that will have a duration beyond the service commencement date are

- Arrangements regarding repair and dry docking
- Planned maintenance finalised by the Ship Manager (designate Technical Manager) and SNF management. This will be an in-house function as ship management (in accordance with the ISM) will be carried out by SNF with assistance and co-operation with Serco Ltd
- Arrangements regarding refit & dry docking accruals
- Liaison and agreements with ship service repair provider in accordance with Serco's ISO 9001 accreditation
- Refurbishment of the catering and seating areas on board the three ROPAX vessels

costed as set out below and for completion during the planned dry docking in November or December 2012

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Programme for the Start up Plan

[GANTT chart deleted]

Our Proposal

Outline how the Operator will provide user-friendly, up-to-date management reporting on all mobilisation activities

Members of the Transition Team within the PMO will monitor all mobilisation activities and will produce comprehensive and informative reports that will detail the precise stages that have been reached, together with a summary of any potential difficulties that could impact on future stages within the mobilisation. The report listed below in the next section will be made available to Scottish Ministers, but we will be happy to report activities in a different format, should Scottish Ministers decide otherwise. Standard Serco mobilisation reporting procedures will be adopted (see next section) that will identify all contingencies, time/resource problems and also highlight potential problems in the mobilisation period. Mobilisation and post transition will work to carefully laid out time lines and milestone reporting points as contained in the GANTT diagram. At the start of the mobilisation period the Team will produce:

- A risk analysis (using Serco's unique risk management tool 'STRIM')
- Business continuity plan
- Cost benefit analysis
- Comprehensive contingency plan (e.g. vessel breakdown, IT systems crash etc.).

They will also put in place emergency planning for disaster in relation to catastrophic ship wreck, collision, fire, environmental incidents and other major emergencies, in accordance with the ISM (International Safety Management) code.

Provide a summary of the standard reports the Operator proposes to provide with their mobilisation service

Serco mobilisation procedures use standard reporting as contained in the PRINCE2 guidelines as well as Serco's own tailor-made reports. These include:

- STRIM (Serco's risk management tool)
- eSTRIM (Serco)
- RAG(Red Amber Green) status reports
- Dashboards and Highlight reporting systems

These reports will be made available to Scottish Ministers throughout the mobilisation and post Commencement Date.

The STRIM and eSTRIM software tools have been developed in-house by Serco to support Serco's risk management process. Both tools provide facilities for defining project / business goals and controls, documenting risk, opportunity, issue and assumption events, assessing those events in terms of probability and impact, and linking goals, controls, indicators and actions to each event.

The tools provide reporting functions to preview and print data and allow the export of both project and event data in a Microsoft Mail Merge format for combining with user-developed report formats using the tools available within Microsoft Word. They also provide functions to transfer data between the two applications and Microsoft Excel spreadsheets

Both tools incorporate a number of risk scoring systems including those defined by the Institution of Civil Engineers and the Institute of Actuaries in the "Risk Analysis and Management for Projects" (RAMP) Methodology, by the Association for Project Managers in the "Project Risk Analysis and Management" (PRAM) document, and the UK Home Office

system

Outcomes and benefits

By providing comprehensive reports, which will be made available for the Scottish Ministers' to access, the progress of the Mobilisation Period can be carefully documented and monitored.

Signed for and on behalf of the Scottish Ministers	Signed for and on behalf of Serco Ltd
Signature.....	Signature.....