



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 5
SCH 13 - 17**

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 13 - GRANT PAYMENT

1. Payment of Monthly Instalments

- 1.1.** Following the completion of the first month's Services the Operator must submit to the Scottish Ministers Grant Claim Form in a form specified by the Scottish Ministers for the first monthly instalment of the Grant. Where the details of the Grant Claim Form are agreed by the Scottish Ministers, then payment will be made to the Operator within 10 Business Days of receipt. A Grant Claim Form must be submitted monthly thereafter.
- 1.2.** Where parts of the Grant Claim Form are not agreed or the Scottish Ministers believe that a deduction should be made under the terms of the Contract then a notice specifying the elements not agreed or the deduction being applied will be returned to the operator and payment will be made on the agreed elements and /or less any applied deduction within 10 Business Days of receipt of the Grant Claim Form.
- 1.3.** If any parts of a monthly Grant Claim Form are not agreed then they may be referred through Clause 49 (Disputes Resolution Procedure) or Clause 19, (Resolution of Grant Disputes), as appropriate.
- 1.4.** The Scottish Ministers will pay the Charter Portion into the Operator's Revenue A Account and the balance of the Monthly Instalment (if any) into the Operator's Revenue B Account. If in any Month the Charter Portion is greater than the Monthly Instalment the Charter Portion will nonetheless be paid into the Operator's Revenue A Account and Paragraph 1.7 will apply. If the Scottish Ministers pay any Charter Portions other than to the Operator's Revenue A account then this shall not discharge the Scottish Ministers' obligations to make that payment.
- 1.5.** Notwithstanding any other provision in this Contract:

 - 1.5.1.** the Scottish Ministers will pay all Charter Portions on the due dates in full and without any deduction or withholding in respect of set off, compensation, retention, counterclaim or any matter whatsoever (including without limitation and for the

avoidance of doubt, the circumstances set out in Paragraph 1.6, Clauses 19, 22, and 53.4.

- 1.5.2. the Scottish Ministers are obliged to pay all Charter Portions in full in accordance with Paragraph 1.4 and notwithstanding any breach by the Operator of any provision in this Contract and/or the operation of Paragraph 1.6, Clauses 19, 22, and 53.4. or otherwise.
- 1.5.3. The Scottish Ministers will pay all Charter Portions in full on or before the date when the relevant amounts are expressed to be due under the Ship Charters and this obligation will not be affected by:
 - 1.5.3.1. any failure by the Operator to include the Charter Portion in any Grant Claim Form;
 - 1.5.3.2. any failure or delay in the agreement of any Grant Claim Form; or
 - 1.5.3.3. any limitations on recourse contained in the Ship Charters
- 1.6. The Scottish Ministers are not obliged to pay any part of a Monthly Instalment due to be paid into the Operator's Revenue B Account where, as at the due date for payment, an Event of Default (or event which with the giving of notice, lapse of time or other condition may constitute an Event of Default) has occurred. The Scottish Ministers may at their discretion pay the Grant or any part of a Monthly Instalment (but not, for the avoidance of doubt, any part of any Charter Portion) due to be paid into the Operator's Revenue B Account or any part thereof notwithstanding, and without waiving, any such Event of Default or event.
- 1.7. In the event that pursuant to Paragraph 1.4 the Scottish Ministers, in any Month, make payment of a Charter Portion which exceeds the Monthly Instalment then so much of the Charter Portion as exceeds the Monthly Instalment will be an advance payment of Grant and be compensated by the Scottish Ministers by adjusting any subsequent Monthly Instalment to the extent only that such Monthly Instalment exceeds Charter Portion in the relevant Month.
- 1.8. In the event that pursuant to Clause 2.7 of any Tripartite Agreement, the Scottish Ministers make payments into the Operator's Revenue A Account such amount shall form part of the Grant notwithstanding that they do not or may not appear in the Base Case for the

relevant Service Year and if paid outwith the Grant Period shall be deemed to have been paid in respect of the last Service Year.

2. The Revised Base Case

2.1. Unless any price or cost is updated at prevailing prices as allowed for below, each price, and cost in respect of future years in the Base Case with the exception of HIRE costs within the Vessel Spreadsheet which shall be deemed to have been included in the Spreadsheet at nominal prices will be Index Linked for each year after the initial year (YR1). Unless any revenue is updated at prevailing prices as allowed for below, each revenue in respect of future calendar years in the Base Case will be Varied by Tariff Index Linking Index Linked for each calendar year including 2013.

2.2. In the event that the Operator is able to establish (to the reasonable satisfaction of the Scottish Ministers) that:

2.2.1. Revenue for a relevant Service Year had fallen by at least 10% plus the percentage of CPI attributable to the relevant Service Year from the Revenue in the preceding Service Year; and

2.2.2. Revenue can reasonably be forecast to continue at levels at least 10% plus CPI below that in the preceding Service Year for subsequent Service Years,

provided always that the Operator (i) has not in any way contributed to such material difference in Revenue and (ii) has taken all reasonable steps to mitigate the consequences of such material difference in Revenue then the Operator may submit, as soon as possible and in any event within 2 Months after the expiry of the relevant Service Year, a proposal for a Revised Base Case Calculation in the subsequent Service Years to take account of any forecast reduced Revenue. For the avoidance of doubt the Operator will not be considered to have taken all reasonable steps to mitigate the consequences of such a reduction in Revenue unless the Scottish Ministers are satisfied that all possible variations to the Services (including but not limited to the Fares, Timetable and Vessels) have been considered fully. The Scottish Ministers reserve the right to exercise their rights under Clause 5.6 and/or Clause 11 at any time. or,

- 2.2.3. Scottish Ministers determine to continue to provide a separate subsidy for freight carriage under a separate public service contract following the termination of the existing public service contract with Shetland Line (1984) Ltd in 2014
- 2.3. If the Harbour dues payable by the Operator in connection with the provision of the services are increased without an equivalent increase in the Published Tariff being authorised by the Scottish Ministers then provided always that the Operator (i) has not in any way contributed to such increase in Harbour dues and (ii) has taken all reasonable steps to mitigate the consequences of such increase in Harbour dues then the Operator may submit, as soon as possible, and in any event within two months after the relevant increase in Harbour dues, a proposal for a Revised Base Case Calculation for subsequent Service Years to take account of such increase in Harbour dues.
- 2.4. If the level of reimbursements received by the Operator in connection with the provision of the Services from Transport Scotland through its Concessionary Travel scheme are reduced without an equivalent increase in the Published Tariff being authorised by the Scottish Ministers, then provided always that the Operator (i) has not in any way contributed to such reduction in contributions and (ii) has taken all reasonable steps to mitigate the consequences of such reduction in contributions then the Operator may submit, as soon as possible, and in any event within two months after the relevant reduction in contributions, a proposal for a Revised Base Case Calculation for subsequent Service Years to take account of such reduction in reimbursements.
- 2.5. If, pursuant to the terms of the Ship Charters, the sums payable under the Ship Charters are varied (whether on account of Tonnage Tax or otherwise) and such variation has not been allowed for in the relevant Base Case then the Operator may prepare and submit to Scottish Ministers a Revised Ship Charter Base Case Recalculation for the current and subsequent Service years. A Revised Ship Charter Base Case Recalculation will be effected in the same manner *mutatis mutandis* as a Revised Base Case Calculation except that only the amount of the Charter Portions will be adjusted and a Revised Ship Charter Base Case Recalculation will come into effect as a Revised Base Case upon submission to Scottish Ministers.
- 2.6. For the avoidance of doubt when undertaking a Revised Base Case Calculation no account must be taken of the excepted matters referred to in Paragraph 3.3.

- 2.7.** Actual information regarding Revenue and any associated reduction in costs on the Services to date in the relevant Service Year must, so far as known, be incorporated into the Revised Base Case Calculation. The Operator must also submit such information and supporting documentation as the Scottish Ministers may request. If the Scottish Ministers (in their sole discretion) agree the Revised Base Case Calculation as submitted by the Operator, or with variations agreed with the Operator, then the Revised Base Case Calculation (with any relevant variations) will come into effect as the Revised Base Case (until recalculated as herein provided). If the Scottish Ministers and the Operator do not agree any items in the Revised Base Case Calculation within 10 Business Days of submission of the Revised Base Case Calculation then, for the avoidance of doubt, the Revised Base Case Calculation will not come into effect as the Revised Base Case.
- 2.8.** A retrospective payment may be made at the sole discretion of the Scottish Ministers, having regard to the circumstances prevailing, to adjust the final Monthly Instalment for the relevant Service Year to adjust the sum of all Monthly Instalments in the relevant Service Year to that sum which would derive from the Revised Base Case or a proportion of that sum.

Grant Adjustment: Changes in Applicable Law

- 2.9.** In the event that there is a change in Applicable Law such that as a consequence of such change the Operator incurs an unavoidable material change in its Operating Costs or is reasonably likely to experience an unavoidable material change in Revenue then the Operator must advise the Scottish Ministers and either party will be entitled to request a Grant Adjustment.
- 2.10.** When requesting a Grant Adjustment the Operator must provide such actual and projected information relating to Operating Costs and Revenue and Operator's Return as the Scottish Ministers may request and if the Scottish Ministers agree the Grant Adjustment the Base Case and all future Monthly Instalments must be adjusted accordingly.
- 2.11.** If the Scottish Ministers and the Operator do not agree any items relating to the requested Grant Adjustment within 30 days of submission the Scottish Ministers must refer any disputed item to the Expert. The Monthly Instalments will be adjusted by the net effects of such amounts as are not in dispute pending the Expert's determination.

3. Actual Outcome Statement

3.1. As soon as possible and in any event within 2 Months after the expiry of each Service Year, the Operator will submit a draft Actual Outcome Statement to the Scottish Ministers which must be prepared in accordance with this paragraph 3.

3.2. The draft Actual Outcome Statement will show:

3.2.1. the actual Operating Costs and actual Revenue for that Service Year set out in the same format as the Base Case Schedule for that Service Year;

3.2.2. the difference between payments made in respect of that Service year for the Operating Costs less Revenue and the actual Operating Costs less actual Revenue;

3.2.3. the amount the Operator considers he is entitled to be paid as Outcome Operator's Return supported by the analysis of and which must include the Contract Adjustments To Base Case Operators Return as set out in the Base Case Schedule; and

3.2.4. the difference between payments made in the Service year for the Operator's Return and the entitlement under paragraph 3.2.3.

3.3. The draft Actual Outcome Statement for each Service Year must be prepared using the actual Operating Costs, Revenue and the Outcome Operator's Return of the Operator for that Service Year except that:

3.3.1. no adjustment will be made to the Operating Costs or the Revenue in respect of any Performance Deductions or in respect of any fines or penalties incurred by the Operator;

3.3.2. no allowance will be made for any reduction in Revenue arising from the Operator allowing concessions or discounts which have not been provided for in the Base Case or consented to by the Scottish Ministers or otherwise reducing or not applying the Published Tariff;

3.3.3. no account will be taken of the costs of any reference to the Expert;

- 3.3.4. the Published Tariff will be assumed to have been Tariff Index Linked and rounded up on every applicable occasion unless agreed otherwise by the Scottish Ministers;
- 3.3.5. adjustments to the Operating Costs in respect of increased wages or salaries will be limited to Index Linking of the wages and/or salaries allowed for in the applicable Service Year;
- 3.3.6. no adjustment will be made to any interest charges (except so far as reasonably arising from changes in interest rates during the relevant Service Year) made or provided;
- 3.3.7. if any reduction in the Operating Costs is attributable to the deferring of scheduled expenditure or arises from a breach by the Operator of his obligations under this Contract then the Grant must be reduced by an amount equal to such reduction;
- 3.3.8. any payments made to the Operator by way of additional grant under Clauses 24.1 (Inherited Employment Liabilities) will not be included; and
- 3.3.9. no provision will be made for the cost of acquisition of Funded Assets or for Capital Supplements.
- 3.4.** The draft Actual Outcome Statement must be submitted to the Scottish Ministers together with such supporting vouchers, reports and other documentation as the Scottish Ministers may reasonably require for the purpose of substantiating the Actual Outcome Statement. If the Scottish Ministers agree the draft Actual Outcome Statement as submitted or with variations agreed with the Operator then the Actual Outcome Statement will come into effect for the purpose of establishing the Excess payment and the Varied Reward. If the Scottish Ministers and the Operator do not agree any item in the Actual Outcome Statement within 10 Business Days of submission of the draft Actual Outcome Statement the Scottish Ministers must refer such dispute to the Expert.

4. Annual Grant Reconciliations

Reconciliation of Monthly Instalments - Base Case

4.1. If, in the agreed Actual Outcome Statement:

4.1.1. the payments made for the Operating Costs less Revenue exceed the actual Operating costs less actual Revenue then the difference will be deemed to be the Excess Payment. [For the avoidance of doubt, if in any Service Year payments made in the Service year for the Operating Costs less Revenue are less than the actual Operating Costs less actual Revenue then the Excess Payment will be deemed to be nil.];

4.1.2. there is a difference between payments made in the Service year for the Operator's Return and the entitlement, then the difference will be deemed to be the Varied Reward. If the entitlement exceeds the payment then the Varied Reward will be positive or if the entitlement is less than the payments made then the Varied Reward will be negative.

4.2. The Sum Due to the Scottish Ministers is the net Excess Payment minus the Varied Reward, Where this is positive, the Operator must repay the Sum Due to the Scottish Ministers within 20 Business Days of the Actual Outcome Statement being agreed or determined as the case may be and the Excess payment if not repaid as aforesaid may be deducted (in whole or in part) by the Scottish Ministers from any subsequent Monthly Instalment.

4.3. Where the Sum Due to the Scottish Ministers is negative, the Operator must include the Sum Due in the next monthly Grant Claim Form to the Scottish Ministers to be paid by the Scottish Ministers along with the due Monthly Instalment.

Reconciliation of Monthly Instalments - Fuel

4.4. The Operator shall be under an obligation to take all reasonable steps to procure the fuel used for the Services on the best terms available to the Operator which shall not depart materially from the terms normally negotiated with the Operator's suppliers across the Operator's activities. Where this involves the receipt of a discount or payment of a commission to the Operator, then that discount or commission in relation to the fuel used for the services shall be deducted from the cost of the fuel submitted in the Monthly Fuel Statement and Annual Fuel Statement.

- 4.5.** The Operator must submit to the Scottish Ministers within 14 days of the end of each Month a Monthly Fuel Statement accompanied by copies of relevant invoices and delivery notes. The Monthly Fuel Statement must show the Projected Fuel Liability for that month by grade and by vessel, and the actual cost incurred by the Operator in purchasing each grade of fuel used by each Vessel for that month.
- 4.6.** The Operator must submit to the Scottish Ministers a draft Annual Fuel Statement within two Months after the expiry of each Service Year together with such supporting vouchers reports and other documentation as the Scottish Ministers may reasonably require for the purpose of substantiating the Annual Fuel Statement. If the Scottish Ministers agree the draft Annual Fuel Statement as submitted or with variations agreed with the Operator then the Annual Fuel Statement will come into effect for the purpose of establishing the Annual Fuel Reconciliation Payment. If the Scottish Ministers do not agree any item in the Fuel Statement within 10 Business Days of submission of the draft Annual Fuel Statement then the Scottish Ministers shall refer such dispute to the Expert in accordance with Clause 19.
- 4.7.** The Annual Fuel Statement must show the cost of purchasing the Projected Tonnage by applying the Average Price per metric tonne paid by the Operator for each grade of fuel used for the relevant Service Year (the Fuel Cost). The Average Price Per metric tonne will be derived from the total quantity (in metric tonnes) of each grade of fuel purchased by the Operator during that Service Year and the total delivered price paid by the Operator for each grade of fuel in that Service Year.
- 4.8.** The Annual Fuel Reconciliation Payment will be the difference between the Fuel Cost and the Projected Fuel Liability and will be paid to or by the Scottish Ministers within 20 Business Days of the Annual Fuel Statement being agreed or determined as the case may be.
- 4.9.** The Annual Fuel Reconciliation Payment if due by the Scottish Ministers will be paid to the Operators' Revenue B Account and if due by the Operator and not paid in accordance with Paragraph 4.8, may be deducted by the Ministers from any subsequent payment to the Operators Revenue B Account.
- 4.10.** If during the Grant Period the Operator permanently replaces either/any of the Vessels in accordance with Clause 4.4 (with the consent of the Scottish Ministers), and/or if a

Variation to the Services comes into effect, the Projected Tonnage must be amended to reflect any changes in fuel consumption.

Performance Deductions

- 4.11.** Without prejudice to and in addition to the rights of the Scottish Ministers under any other provisions of this Agreement, where the Operator has failed to meet any of the Performance Measures, the Scottish Ministers may make deductions (**Performance Deductions**) in accordance with the Performance Regime. The Scottish Ministers must notify the Operator of its liability to Performance Deductions, but any delay or failure to notify must not impair the right of the Scottish Ministers to make Performance Deductions.
- 4.12.** The Scottish Ministers are entitled to recover Performance Deductions by way of deduction from the Monthly Instalment payable in any Month after the Quarter in respect of which the Performance Deductions arose. Any Performance Deductions which remain unrecovered after the Termination Date or the Expiry Date (as the case may be) will be a debt due and owing to the Scottish Ministers.
- 4.13.** No performance Deductions under Paragraph 4.8 may be made where the failure to meet any Performance Measure is directly attributable to a Relief Event.
- 4.14.** If the Scottish Ministers make a Performance Deduction for a failure to meet the Performance Measure for Reliability, they must not make a Performance Deduction for a failure to meet the Performance Measure for Punctuality (Connectivity) or the Performance Measure for Punctuality (General) if all failures arise from the same circumstances and vice versa.
- 4.15.** If the Scottish Ministers make a Performance Deduction for a failure to meet the Performance Measure for Punctuality (Connectivity), they must not make a Performance Deduction for a failure to meet the Performance Measure for Punctuality (General) if both failures arise from the same circumstances and vice versa.

5. Grant Disputes – Expert Determination

- 5.1.** The Expert will be a person having appropriate expertise with respect to, but no interest in the outcome of, the matter referred to him and will be appointed jointly by the parties. Failing any such agreement within 5 Business Days of the first nomination of a person to

be the Expert, the Expert will be the person nominated by the President for the time being of the Institute of Chartered Accountants of Scotland on the application of either party. The party making the application must request the President to nominate a person with appropriate expertise and no interest in the outcome. The costs of any reference to the Expert must be borne by the parties in such proportions as the Expert will determine .

5.2. The Expert will be a person having appropriate expertise with respect to, but no interest in the outcome of, the matter referred to him and will be appointed jointly by the parties. Failing any such agreement within 5 Business Days of the first nomination of a person to be the Expert, the Expert will be the person nominated by the President for the time being of the Institute of Chartered Accountants of Scotland on the application of either party. The party making the application must request the President to nominate a person with appropriate expertise and no interest in the outcome. The costs of any reference to the Expert must be borne by the parties in such proportions as the Expert will determine.

5.3. The Expert will be given terms of reference agreed between the parties stating the context in which the relevant referral is being made to him and failing agreement each party must be entitled to submit its own terms of reference. Each party may provide such supporting information as it sees fit. The Expert will be free to make his own determination of the item referred to him and his determination will be final and binding except in the case of manifest error. The Expert must act as expert in determining the matter referred to him and not as an arbitrator.

6. Capital Supplements

6.1. The Scottish Ministers will make advances by way of grant (a Capital Supplement) to the Operator towards the provision of Funded Assets agreed to be acquired by the Operator for the purposes of the Services calculated and paid in accordance with this Paragraph 6.

6.2. The Operator may submit to the Scottish Ministers at any time a proposal for the acquisition of Funded Assets and such proposal will contain such detail of the assets, their purpose, cost and terms and conditions of acquisition as may be reasonably required to enable the Scottish Ministers to evaluate the proposal.

6.3. In the event that the Scottish Ministers approve the proposal for the acquisition of the Funded Assets, and such approval may be subject to such conditions as the Scottish

Ministers may reasonably determine, they must advise the Operator and the issue of such approval will oblige the Scottish Ministers to pay a Capital Supplement to the Operator in respect of the Funded Assets equal to the approved cost to the Operator of the Funded Assets.

6.4. Capital Supplements will be paid by instalments or in a lump sum according to the Operator's contract for the acquisition of the Funded Assets. The Operator will submit to the Scottish Ministers a certified copy of each invoice for payment in connection with Funded Assets not less than 14 days before the due date for payment and the Scottish Ministers will pay the Capital Supplement by way of lump sum or instalment (as the case may be) to the Operator on or before the due date for payment of the relevant invoice.

6.5. Capital Supplements will be paid to the Operator's Revenue B Account.

SCHEDULE 14 – OPERATIONAL MANAGEMENT

PART A: OPERATIONAL MANAGEMENT SYSTEMS

The Operator must comply with the following Operational Management Systems:

Operational Management Methodology

Summary of our proposal

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The objectives of our Operational Management Methodology are to:

- Maintain the focus for all Serco Northlink Ferries (SNF) employees on delivering our vision, strategy and targeted results
- Improve SNF's performance by measuring what matters
- Align the business strategy with the work our employees do on a day-to-day basis
- Focus on the drivers of future performance
- Prioritise projects and initiatives as we conduct our annual business planning review
- Provide transparent performance and progress report to Scottish Ministers and our key stakeholders

Our proposal

(i) Description of the systematic process to be adopted to control the conduct of the management of the Services;

A Balanced Scorecard is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organisations worldwide to align business activities to the vision and strategy of the organisation, improve internal and external communications, and monitor organisational performance against strategic goals. Serco adopts a Balanced Scorecard in all our contracts to ensure we focus on the needs of all the key stakeholders in the business. We will introduce a Balanced Scorecard approach for our management of SNF.

To measure and manage our performance across our strategic foundations, SNF will use a performance dashboard that translates our plans for the service into objectives, metrics, initiatives and tasks customised to each group and individual in the business. The performance dashboard will be a performance management tool, enabling our leadership team and employees to:

- Monitor critical business processes and activities, using metrics of performance that trigger alerts when potential problems arise
- Analyse the root cause of problems by exploring relevant and timely information from multiple perspectives and at various levels of detail

- Manage people and processes to improve decisions, optimise performance, and steer SNF in the right direction

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(ii) Proposals for standard management reports and published performance reports.

We will fully comply with all the ISFT requirements for management reports and published performance reports.

Standard management reports will include, but not be limited to:

Financial:

- Full suite of financial information:
 - Profitability
 - Cash
 - Passenger journeys and revenue
 - Freight bookings and revenue
 - Yield

Operational:

- Health and safety performance:
 - Customer accidents
 - Staff accidents
 - Food hygiene inspections
- Service delivery performance:
 - Reliability
 - Punctuality
 - Fuel usage
 - Capacity utilisation
- Environment:
 - Energy usage
 - Recycling
 - Daily carbon release

Customers:

- Customer satisfaction
- Service Quality
- Brand tracking
- Complaints
- Marketing performance

Partnerships:

- Employee satisfaction
- Employee turnover
- Employee absence
- Training days
- Stakeholder satisfaction

Compliance and risk:

- Zero contract breaches
- Internal and external audit results
- Performance against maritime and legislative requirements
- Risk register

We will publish reports on:

- Service delivery performance
- Our progress in supporting subsidy-reduction
- Passenger volumes
- Customer satisfaction
- High-level health, safety and environment KPIs

Measurable Benefits

The measurable benefits of our Operational Management Methodology are:

- Consistent achievement of our contract target outcomes, as agreed with Scottish Ministers, through the life of the contract
- Demonstrable success in delivering a much stronger, more sustainable and better performing business on all fronts to Scottish Ministers at the end of contract through ongoing continuous improvement.

Our commitment is that the Northlink Ferries business will be in a substantially stronger position at the end of the contract in 2018.

Operator's Quality Management Organisation of the Contract

1. Summary of our proposal

SNF will appoint a HSQE Manager who will be responsible for implementing a robust Quality Management System (QMS) that will be produced during the mobilisation phase and implemented at service commencement date and further developed during the operational phase. The QMS will be designed around self auditing, yet open to internal and external scrutiny and will provide staff with clear processes and procedures to assist them in their day to day role in delivering an excellent service to passengers.

Application of the QMS will play a key role in meeting and improving the outputs required by Scottish Ministers.

Serco prides itself on delivering products and services of the highest quality. The management of change is our core skill and our quality standards are the foundations on which every one of our contracts has been built. The depth of research we have undertaken to understand every facet of the Northern Isles Ferry Services has identified many important changes that we believe should be made, that will bring better value for money for passengers, a higher quality of service and potential to reduce the subsidy from Scottish Ministers. The implementation of our comprehensive QMS will enable us to deliver the key objectives set by Transport Scotland by defining processes for the Northern Isles Ferry Services contract and keeping those processes under control.

2. Analysis of the current challenges and opportunities

Serco's reputation and our ability to help our business grow depends on us providing products and services that are of a consistent, reliable and high quality; meeting or exceeding our customers' needs and achieving customer satisfaction. The Chief Executive of Serco Group has developed and issued a Quality Policy Statement to which every Division, Business and Contract within the Serco Group worldwide must adhere. This policy defines the minimum standards expected and Serco's commitment to meeting the key policy requirements of the ISO 9001, QMS standard. These include:

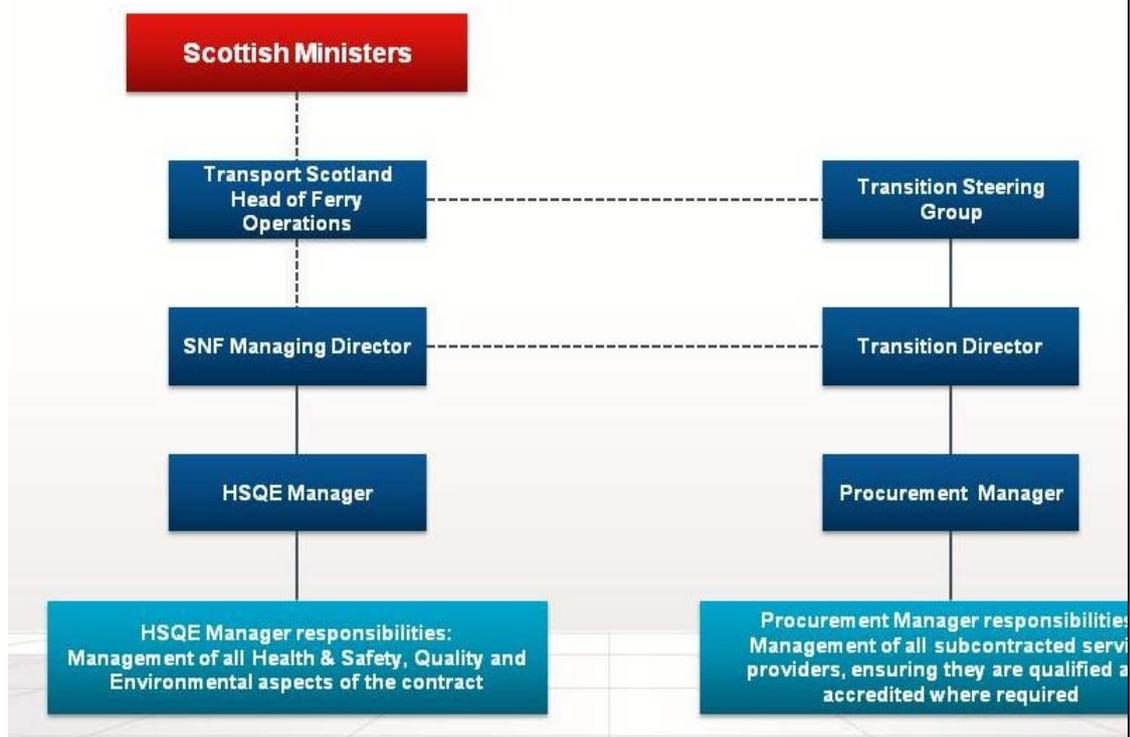
- Achieving customer satisfaction by delivering services and products of high quality, reliability and consistency that meet or exceed customers' requirements.
- Delivering a business strategy that contributes to Serco's vision and achieves objectives.
- Managing risks associated with Serco's activities and minimising their impact.
- Using technology to support internal processes and delivering enhanced capability to customers.
- Continually developing a sustainable business.
- Creating, developing and leading highly motivated teams who have up to date competencies and skills and live Serco's values.

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3. Our proposal

- (i) An annotated chart of the Operator's organisation of the Contract including the line of command and communication links between all parties including Operator, subcontracted service providers, and the Scottish Ministers and his representatives for the mobilisation and operational stages of the Contract;

Please see diagram below.



- (ii) Proposed person who shall have defined authority for establishing, maintaining and reporting on the Quality Management System;

The HSQE Manager will be the person with defined authority for delivering the Serco Northlink Ferries' Quality Management System (QMS). He/she will report directly to the SNF Managing Director and will be responsible for:

- Establishing, maintaining and reporting on the QMS
- Reviewing the effectiveness and application of the QMS and its maintenance in accordance with the contract, Serco and ISO requirements
- Providing QMS advice and assistance to staff
- Liaising with Serco's third party quality auditors in order to secure the necessary accreditation
- Analysis of data in order to monitor performance and identify trends
- As necessary, provide support in assessment and review of suppliers
- As necessary, delivery of QMS training to staff
- As necessary, participation in Health, Safety, Quality and Environmental

Committees

(iii) The structure and content of typical quality control procedures to be used on the project;

The QMS will address all elements of the ISO standard and statement of requirement which will include;

- System & equipment design
- Development and testing
- Operational support and maintenance service
- Management of customer facing activities
- Programme management
- Document and data control.

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SNF will apply quality control procedures across each element of the contract as outlined below:

- Document control process
- Health and Safety
- Environment
- Staff performance processes
- Records control process
- Defect reporting, repair & maintenance Process
- Accident/Incident reporting
- Contract performance reporting process
- Sub-contractor evaluation and performance review process

Typical quality control procedures revolve around document control, and as such a document management system will be used that will allow and include effective review, control, approval, issue status and retrieval capabilities ensuring that the right controls are in place to guarantee that documents and data are accessible, communicated and updated in a controlled manner.

The QMS will provide the framework for continual improvement and increase the probability of enhancing customer satisfaction and the satisfaction of other interested parties. It will effectively provide the SNF and its customers with the confidence that the provision of service and products will be delivered consistently to predetermined high standards. Where applicable, documents will be annotated with the appropriate Transport Scotland / Serco Security classification and in accordance with Scottish Ministers' security and contract requirements.

Structure and Content

Outlined below is the structure and content of quality control procedures relating to one of the most important elements of the QMS - document management:

Approval and Review

All management system documents will be approved, prior to issue and following update by the appropriate personnel. All SNF Health, Safety, Quality and Environmental management procedures will be approved by the HSQE Manager

Documents that form part of the SNF Management System will be reviewed as part of the regular management system review activity and as a minimum every two years.

Proposals for Document Changes

Any member of staff may make proposals for changes to the Management System procedures, Quality Plan etc. To do this a Document Issue Amendment Request Form will be generated and sent to the HSQE Manager, who will consider the merit of the change and take appropriate action.

Distribution of Documents

The HSQE Manager will ensure that current versions of business management documentation will be available at all sites and vessels. Vessels management documentation will be distributed in a CD Rom format

Documents will be distributed in 'read-only' format on the Management Information System. Confirmation may be achieved via e-mail or return of the completion slip included within a duly completed Document Issue Amendment Notice Form.

Document and Data Register

The HSQE Manager will maintain a Document Register which lists all approved internal documents by name, number, issue status, date of issue and location. This list shall be included on the Information Management System.

Control of External Documents

Documents, CDs etc. produced by outside agencies such as drawings, marine publications, British Standards, Transport Scotland standards, codes of practice, and maintenance manuals will be stored and controlled.

Obsolete Documents and Data

Obsolete documents will be promptly withdrawn to ensure they are no longer used. The withdrawal of a document can be achieved by its deletion into archive from the on-line system or by issuing instructions via e-mail. Obsolete documents will be returned to the originator, retained or destroyed. If retained for any purpose they will be labelled accordingly.

Control of Records

Comprehensive records are key to being able to demonstrate that the Contract is delivering the services required and demonstrating compliance with statutory requirements. Records defined in the contract as being required by Scottish Ministers will be collated and be available at contract completion. The satisfactory review of the records by the responsible person within Transport Scotland shall constitute an element of the acceptance procedure.

Retention

The compilation and storage of records during the contract will be controlled in accordance with a written procedure defining adequate security, traceability, storage and disposition.

Records will be retained in accordance with statutory and Scottish Ministers' requirements. Sensitive records, such as personal details and documents with Scottish Ministers' / Serco security classifications will be controlled with due consideration to personnel law, data protection. It is envisaged that all hard copy

records will be routinely archived during the term of the contract. The HSQE Manager will ensure that records are held securely in suitable storage, e.g. filing cabinets in areas where they will not degrade due to damp, infestation etc. Electronic records will be held on a system that is routinely 'backed up'.

(iv) A list of procedures to be included in Quality Management System for mobilisation and operational phases showing their hierarchy and interface;

Mobilisation Phase

Procedure- Mobilisation Phase	Responsibility for interfacing with the TS Head of Ferry Services	
Review of all risks and mitigations, using STRIM programme	HSQE Manager	
Review Current Security Schedule		
Review current Contingency & Business Continuity Plans		
Review current Health and Safety Plan		
Review Current Environmental Plan approved by TS		
Review of all current operational policies and procedures		
All job titles reviewed and Terms and Conditions finalised with individuals and information stored	HR Manager	
Review of all supplier Terms and Conditions	Procurement Manager	
Transfer of records and associated fares from Northlink ticketing System, for presold tickets	Finance & Commercial Manager	
Review of all legal, insurance and leasing documents/approvals		
Stakeholder Engagement Plan approved and implemented	Head of Marketing & Communications	

(v) A list and structure of procedures for monitoring of the Quality Management System.

A formal review of the QMS will be carried out at regular periods to meet the requirements of ISO Standards. Vessel Masters and senior managers will be responsible for reviewing the QMS, for vessels and areas under their control, and identifying and reporting any discrepancies or deficiencies which may affect quality, safety or the environment capability. Serco will hold management review meetings at regular intervals to evaluate the efficiency of the QMS. The review meetings will address:

- Analysis of accidents, hazardous occurrences, environmental incidents and non-conformities

- Internal audit findings
- Overall efficiency of the QMS and recommendations for procedural changes
- Results of external audits, as required
- Organisational changes
- Identification of new plans, instructions or procedures, both vessel or land based
- Inputs from Transport Scotland
- Fleet Notices
- Effectiveness of training methods
- Changes in relevant legislation, conventions, etc
- Review of objectives

Auditing the QMS



A programme of Internal & External Audits & Transport Scotland inspections will be performed throughout the contract term by the HSQE Manager, Technical & Marine Superintendents, and as part of the Serco ISO Certifications the approved third party auditors, currently Bureau Veritas. The aim of these audits and inspections will be to review contract

operations to confirm that they are:

- Delivering Scottish Ministers' requirements as detailed in the contract
- Complying with its ISO accreditations
- Complying with its Quality Management System
- Complying with legislative requirements
- Complying with required Codes Of Practice
- Complying with Scottish Ministers' and Serco's Policies and Procedures

Audits will review the effectiveness of processes and procedures in order to identify highlight areas of potential improvement that give rise to more efficient, cost effective contract operations, increased customer confidence and reduced contract risk.

Audits will be performed by nominated auditors who will be aware of the contractual technical and managerial requirements of the contract but are independent of the day-to-day activities performed at each of the sites. The Auditors will have a recognised ISO 9001 auditing qualification e.g. Lead Auditor. Where Non-conformances are identified, these will be detailed on a Non-conformance Report. The appropriate Corrective Action to be taken and the timescale for its implementation will be agreed at the time of audit with the Manager of the area being audited. The final audit report will be completed and distributed

All reports and Corrective Actions resulting from audits will be entered into the Assure database. Assure will be used to track corrective actions to completion and will provide a variety of management reports regarding the status of the audit programme and corrective actions. It will be the responsibility of the Manager of the area / Vessel Master concerned to implement corrective actions and inform the Auditor of completion. The Managing Director will monitor progress of corrective action closure and once closed will confirm that the action taken has been effective,

where necessary by further audit. The Quality Assurance Manager has a reporting line to the SNF Managing Director hence any serious issues arising from the auditing process will be reported to him directly. Examples of this would be where:

An audit identifies a breach of the law

- An audit identifies an imminent life threatening or serious injury situation
- An audit identifies an imminent threat of pollution
- Audit dates are continually slipped by operational management
- Implementation of corrective action is continually slipped

If an Auditor believes the situation is serious to warrant action outside the contract they can seek assistance firstly from the Designated Person, the HSQE Manager, the Serco Assurance Director or ultimately the Director of the Serco Corporate Assurance Group.

4. Outcomes and benefits

The benefits of the proposed SNF QMS are centred around the ability to provide clarity to staff and suppliers on what the business expectations and standards are, to assist them in providing a leading ferry service. Goals and objectives are set and achieved within given timeframes, making it simple to track performance and improvements.

The QMS also allows SNF to provide clear and accurate management information to Transport Scotland on key operational elements of the contract, providing reassurance and confidence that the service is in safe hands. Such management information will be made available to Transport Scotland upon request and open to review, offering full transparency at all times.

Operator's Proposals for training

1. Summary of our proposal

Serco NorthLink Ferries (SNF) will improve the effectiveness of training and development to ensure we have a strong skill pipeline in place through which we can lift organisational performance standards and outcomes to make Northern Isles ferries fit for the future.

This will be through:

- We will undertake a training needs analysis of all staff, so that any skills gaps can be addressed at the earliest opportunity and training/retraining provided.
- Serco's vast experience of training staff who are involved in safety critical government marine services will be the foundation of Serco Northlink Ferries' (SNF) training programme
- Any new staff taken on will have attained relevant levels of competency and certification prior to commencing any particular work activity for which they have been employed. There will be an emphasis on quality, health, disability awareness, safety and environmental training
- Wherever possible, we will make use of local Scottish marine training establishments, complemented by our own trainers
- Annual appraisals will be introduced for all SNF staff,
- The core of the training programme will centre on the care, safety, security and welfare of passengers and our staff. We will honour Northlink Ferries Limited's current commitment to Apprentice and Officer Cadet training

The SNF Human Resources Manager will be responsible for establishing, maintaining and reporting on the training programme, which will be monitored in a number of ways, including by individual staff appraisals performed by line managers that will highlight training needs, by monthly reviews of courses and by scrutiny of legislative requirements and any changes thereto.

2. Our Proposal

Serco has a history of introducing outstanding improvements to transport services, and the calibre of our staff is fundamental to achieving this positive change. Our approach to developing, structuring and facilitating an effective training programme for staff will be to ensure:

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The SNF training will be focused on developing a strong skills pipeline:

- We will conduct robust, reliable and objective assessment processes for all our training programmes and the competencies needed to deliver for SNF.
- Skills refresher and continuation training required for the maintenance of qualifications, certifications and standards is offered and accessible to relevant employees

- An annual training calendar for SNF which will be facilitated in conjunction with individual employee development plans that are established annually between the employee and their manager

We will be proactive in our review of the training programmes, conducting regular training needs analyses and audits to ensure what we deliver is accurate and relevant, so that we maintain a strong skills pipeline within the organisation.

We will ensure that the training and development initiatives we develop for SNF are comprehensive and of a high standard. They will be structured to ensure the delivery of the strong safety standards in place and will have the objective of driving a customer service culture within the workforce and developing a strong skills pipeline for the future.

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(i) Details of the Operator's organisation of training including the line of command and communication links between all parties including Operator, training providers and local training organisations for the identification of training opportunities and needs, the identification of eligible employees or potential employees and the generation of training programmes to improve sea going and land based skills;

Serco Northlink Ferries (SNF) will employ a dedicated and diverse workforce, trained to both statutory and best practice standards. Serco Marine Services has a fully developed and approved suite of training courses which we will use as the foundation for the SNF training programme, which will be modified and expanded to the requirements of the Northern Isles Ferry Services, which includes, but is not limited to technical, safety, customer care and hygiene.

All marine staff are governed by International (IMO) and UK statutory requirements for the marine industry as administered by the Maritime Coastguard Agency (MCA). We will comply with the requirements under the provisions of the International Standards of Training, Certification and Watch keeping (STCW 95 as amended in 2010) and where appropriate to regulations applicable for Class II and IIA ferries. This includes any additional European legislation, as amplified by Marine Guidance and Safety Notices and Maritime Labour Regulations issued by the MCA and the ILO (International Labour Organisation).

Professional marine qualifications will be selectively considered as prerequisites for specialist shore-based roles, such as marine, technical and electrical/electronic superintendents.

SNF will assist junior officers and ratings in preparing them for their Certificate of Competency (CoC) certificate accreditation, in accordance with IMO and the Standard of Training Certification and Watch keeping 95, and employment as marine staff acting in pursuance of MCA requirements.

All SNF's operational staff, as well as any subcontracted operational staff, will be appropriately qualified, and are required to have up to date certification prior to contract commencement.

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SNF's aim is to provide appropriate, planned and systematic training for SNF staff, so that

employees at all levels both sea and shore:

- Are trained to both statutory and best practice standards
- Have the opportunity to maximise their potential.
- Are encouraged to further their own personal development and contribution through further education and development.

Identification of training opportunities and needs

After Commencement Date and as part of the first few months of our operational programme, we will review the training needs of staff and utilise the human element assessment tools that have been developed by the Maritime and Coastguard Agency (MCA). HEAT-S, (Human Element Assessment Tool for Ships) will provide an assessment of the effectiveness of safety management on board ships and HEAT-C, (Human Element Assessment Tool for Companies) will provide an assessment of the company's capability to manage the human element effectively.

SNF will undertake a full skills audit of training and accreditation and ensure the SNF & Serco Induction includes identification of up-skilling where required. This will include specific customer care (especially in relation to disabled and blind people), hygiene, deportment, dress code, customer relationship and environmental, in addition to the mandatory courses on Fire Fighting, Life Saving appliances, crowd control, First Aid, Fast Rescue Accident boat etc.

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Training Identification Process

Operational managers in SNF will be responsible through the Training Officer in the HR department for managing training data and the future training needs of the assigned marine and shore staffs. Serco Group policy requires role profiles to be determined and the core competences stated for all positions. SNF managers will be required to identify the main tasks, operations and duties performed under their leadership, with an emphasis on those that affect quality, health and safety or environmental issues.

At the start of the Transition, we will conduct a preliminary 'training needs analysis', to identify the specific training needs of existing staff in relation to the satisfactory performance of the many operational tasks and duties to be undertaken by sea-going and land-based staff on the Northern Isles Ferry Services. For new employees, individual training needs will also be identified through a 'training needs analysis' that will be conducted during the first half of their first year's employment. In both cases, training or retraining will be provided as a matter of urgency.

Probationary period for new staff

Each new member of staff will undergo a six-month probationary period, which will include a planned set of training and development objectives. Following the successful completion of the six-month probationary period, as occurs with all Serco staff, an appraisal process will be conducted that will set objectives and then subsequently monitor progress, in order to ensure that the needs and expectations of the SNF and the staff member are being met.

Safety and Environmental training

We place considerable emphasis on robust management of safety and environmental issues and SNF will commence the promotion of our safety culture through induction seminars, once NorthLink staff have transferred to SNF. New staff will also take part in a similar induction exercise, so that a consistent culture can be introduced from Commencement Date. Further details on our induction programme can be found in the

next section – Outline Opening Training Programme.

SNF's safety culture will be enshrined within safe operating procedures (e.g. orientation training) and ongoing risk assessments and safety training. SNF's operational activity will thus be under constant review with the monitoring of all safety and environmental incidents having reporting lines to the highest level within the company and in compliance with Serco's ISM Document of Compliance (DoC). Several of Serco's vessels already operate under the International Safety Management Code 2010 as amended (ISM), which requires personnel and training records to be maintained showing effective training in safety and environmental duties.

Customer Service Training

SNF will work with HR and training colleagues across the transport business to develop a tailored customer service program training for Serco Northlink Ferries. Our experience and expertise will ensure that we will develop a competency based program that delivers the highest quality standards and learning outcomes that meet the specific needs of Serco Northlink Ferries staff.

Competencies will include but not be limited to:

- Effective communication
- Identifying and meeting customer needs
- Dealing with difficult customers and challenging situations
- Creating a safe environment
- Personal presentation
- Understanding marketing, branding and promotional programs.

Refresher training

In addition to certification requirements, SNF will conduct refresher training including:

- Security awareness
- Conflict resolution
- Annual fire safety and use of fire fighting equipment
- First aid refresher training.

Ongoing training

SNF will provide ongoing training, including:

- Passenger evacuation
- Crowd control and mustering leadership
- The use of MES (marine escape systems)
- Fast Rescue Boat training
- Safe entry into enclosed spaces etc.

Much of this can be provided by Serco, through our marine services training programme.

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Mentors

To help reinforce understanding and encourage permanent employment of SNF staff from probation onwards, we will introduce a 'mentor support' programme that Serco currently operates in other areas of our business. 'Workplace mentors' will be specially selected from the SNF operational marine staff and others from across the marine and transport business, who will be trained in mentoring and motivational interviewing.

In addition to statutory training and competency qualifications, SNF staff will be trained

through auditable processes in health and safety management and risk awareness. This will provide assurance that they are suitably qualified and experienced personnel and able to perform key tasks.

Except where a certificate of competence is provided by a recognised and relative sector competent training organisation, the training provided will be accurately recorded, signed by the trainee and countersigned by the trainer. Our HR electronic system holds automatic flags for certification that is due for renewal.

Records of certification and our competency matrix will be available at all times for inspection by the Scottish Ministers.

(ii) Outline opening training programme;

We have developed a training programme beyond Commencement Date. It includes:

- Confirmation of contract training requirements and current levels of certification
- A thorough review and/or implementation of the competency grid including confirmation of STCW and CoC certification
- A decision on proposed intervention tools and production of a training plan to address identified skill and certification gaps.
- Road shows with current managers and staff to introduce SNF's and Serco's vision, values and expectations
- Initial training for new managers and staff
- Continuation training to ensure the necessary and appropriate safety and legislation obligations are met
- A review of succession material and planning, in conjunction with a robust training plan.
- Induction training to ensure understanding and accreditation in the core elements of health and safety and first aid currency, service quality, fire safety, equality & diversity, incident management, codes of conduct (including confidentiality, prohibition of smoking, etc.) and the care, safety, security and welfare of passengers and staff.

Identified categories of training for all SNF staff:

- Induction
- Statutory
- Safety
- Officer study leave
- Vocational
- Customer Service and care
- Technical
- Environmental
- Fire and LSA

Induction Training

Induction training will be held in two parts:

- Serco Induction
- SNF Induction

When joining Serco, all employees, both permanent and temporary, will be required to attend the Serco Induction Programme. This programme will cover all essential

knowledge required that will inform new Serco staff of our vision, values, guiding principles, company policies and objectives, organisation, code of conduct and standards. All statutory requirements will be outlined to staff at the Serco induction stage. For existing Northlink Ferries Ltd staff this will be carried out after Commencement Date.

The second part of the Induction Programme is the Contract Induction which will be the responsibility of each SNF line manager. This part of the induction will cover basic safety and environmental practices in the working area, as well as core standards of performance.

Both parts of the induction form part of a training checklist that will be signed by each employee, the SNF Human Resources Manager and the employee's line manager on completion of the programme.

Statutory requirements

The objective will be to meet all statutory or legal requirements at induction stage. Alternatively, an employee who possesses a certificate of competency or statutory qualification to demonstrate that he/she is competent in all duties for which he/she has been employed will have their certification verified. A full training and competence matrix defined by job role will be available on request to Scottish Ministers on Commencement Date.

Safety requirements

SNF's intention is to be an industry leader in promoting and providing the highest quality safety training to our ferry services employees. This training will be based on Serco's wide experience of safety training in a marine context, as well as accepted best practice. The training will be provided either in-house or by using approved qualified suppliers and, in relation to sea going staff, will fully comply with all aspects of STCW '95 (as amended by STCW 2010). The assessment process is core to the demonstration of compliance with regulations and for the utilisation of suitable competent staff when deployed to tasks. All staff will be assessed as to their competence to carry out each item of Safety Critical Work for which they are authorised, for example in relation to our internal 'Permit to Work' system. Operational tasks require our employees to be familiar with, and certificated as competent in, the Permit to Work system. This system ensures that Serco staff are competent to standards that are equal to or exceed MCA and Health and Safety Executive standards.

Officer study leave

SNF officers and suitably qualified ratings will be encouraged and supported to enhance their professional certificates of competency through attendance at maritime colleges on a supported study leave programme. This support will include salary release and lump sum contribution towards fees and costs. Distance learning, e-learning and short course attendance will also be subject to qualifying support.

Apprentices and Officer Cadets.

We understand that there are Officer Cadets already being trained by Northlink Ferries Limited. We anticipate that these cadets will transfer to SNF and continue their training programme. Serco will ensure that our programme of apprentice and cadet training is registered with the MNTB (Merchant Navy Training Board). Existing apprentices and cadets will be given the opportunity of serving and training on Serco's existing and expanding fleet of commercial ships and vessels.

Vocational

All employees will be encouraged to acquire both core and additional skills in vocational

training. This will also encompass encouragement and help with a rating to officer scheme, which we are reviewing. It is Serco's aspiration that all employees meet a minimum of NVQ Level 2 in the relevant vocational field e.g. hospitality and catering within one year of service or employment commencement.

Customer Service

All employees in a customer-interface role will undertake customer service training and development. Some of this will be carried out at induction stage so that the employee can immediately meet Serco's Operating Standards. SNF will strive for all customer-interface employees to be trained to a minimum of NVQ Level 2 in customer service within one year of Commencement Date.

Technical Training

Technical training will be delivered as and when required. This includes the requirement to train and assess maintenance staff undertaking safety critical duties, e.g. repairing, servicing and maintaining vessels. Most technical training will be provided by external suppliers, enabling SNF to buy the specific courses required by providers that are established and recognised within the industry.

(iii) Proposed person who shall have defined authority for establishing, maintaining and reporting on the training programme;

The authorisation of appropriate resources to ensure training and development is being carried out effectively and to the required standard will be the responsibility of the HR Manager.

The Training Officer will be responsible for developing the SNF-wide training strategy and programme supporting each of the Senior Management Team in structuring their own training plans. The Operations & Freight Director, will have day to day accountability for certification, training co-ordination, delivery and quality of sea and shore operational staff drawing on expertise from our other marine contracts. Likewise the Customer Services Director will have day to day accountability for certification, training co-ordination, delivery and quality of sea and shore hotel, catering, passenger services and shore front of house. He/She will also be able to draw on expertise from our other services contracts and will be supported by expert external trainers from local colleges, e.g. Clyde Marine Training in Glasgow, Glasgow College of Nautical Studies and others for elements of training that are sector specific, e.g. MSQ, STCW certification.

Individual staff will be expected to take responsibility for ensuring their certification is current and that their personal development needs are identified in their individual training plans. However, line managers will also have a role to play in encouraging, supporting and setting targets for employees' development and all certification expiry dates will also be monitored and managed centrally.

Reports

Training and certification metrics and the training plan will be produced for review at the SNF senior management team meetings in accordance with Serco's overall strategy planning.

(iv) A list and structure of procedures for monitoring the training programme

Procedures that we will adopt for the monitoring of the SNF training programme are as

follows:

1. Reviews by the SNF Senior Management Team will ensure:
 - Courses remain compliant with legislation, certification, contractual expectations and our own standards
 - Courses remain effective - through monitoring feedback from staff and effectiveness from managers
 - Training is meeting not only the mandatory needs but also best practice across the industry
2. Personal job performance will be continually monitored by line managers through annual staff appraisals (with six-monthly assessment of progress) and a 'Training Record' maintained and reviewed annually to identify any shortfall in training.
3. The training needs of staff who change jobs or work on new services will be analysed and training provided as appropriate. All training will be evaluated to assess the effectiveness and impact on the ferry operations and this information used to improve the planning of future training.
4. In order to utilise resources efficiently, each operational area will be required to produce an annual training plan to include:
 - Analysis of current competency levels, training records, and customer services reports,
 - Succession plans and review of operational requirements, training and development needs for all staff.
 - Requirements for training in the areas of technical expertise, service quality skills, and general management skills per job group.
 - Identification of individual annual competency assessments required as applicable within approved training programmes.
 - Timescale for regular monitoring and reporting at the SNF Senior Management Team meetings and the SNF Board throughout each financial year.
5. We will provide the MCA and Port Authorities with evidence of training in accordance with STCW 1995 (and as amended 2010) as required for the purposes of proper vessel and port marine safety management, in relation to the discharge of SNF's statutory duties under local safety policies and UK legislation

3. Outcomes and benefits

Serco takes great pride in our people, their professional abilities, achievements and we encourage respect for other people and for the environment.

The tried and tested Serco training programmes and development of our people will be rolled out within SNF. Once we have assessed the capabilities and training requirements of the staff who transfer under TUPE arrangements training and retraining will be provided. Induction of all staff into Serco's corporate philosophy, values, ethics and our ambitions for the Northern Isles Ferry Services will commence during Transition through road shows that we will be providing and there will be a step change to the way in which staff undertake their roles. This, without doubt, will benefit passengers and stakeholders alike. Our robust and carefully thought out ongoing training programmes will provide the standard of excellence that we will expect from SNF staff in whatever role they are employed, particularly in relation to the positive changes that we plan to introduce on-board the vessels.



Operator's Proposals for Employment Support

(i) Serco Northlink Ferries' Employment management and the line of command and communication links between all parties including Operator and employment organisations....

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Our HR Manager will also manage the relationship with the Guernsey based crewing organisation with whom our sea going staff will be employed. We will adopt a best practice approach with our provider in Guernsey to ensure we can make timely and sensible decisions on employment related matters for the staff involved.

We will ensure that there are sufficient people with the required skills and motivation to carry out the many activities that comprise the Northern Isles Ferry Services. We will review data such as sickness absence, turnover, balance of leave taken/to be allocated and training delivered and planned and use this information in planning activities.

Long term staffing and capability planning will be reviewed by the HR Manager to create the right staffing plans for delivery of key milestones, significant events in the contract and succession planning

....Opportunities for the long term unemployed, Identification of eligible potential employees and generation of employment programmes to support sea going and land based operations

As a result of Serco's Welfare to Work business, we are in a unique position to meet Scottish Ministers objectives around increasing employment especially in the Northern Isles and NE Scotland and reducing long term unemployed

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Serco already supports the Marine Apprenticeship scheme leading to the Marine Skills Qualification and is committed to offering apprenticeship opportunities on an annual basis. Serco Northlink Ferries (SNF) will be included in this scheme where appropriate.

We will ensure that all of our recruitment and selection processes are underpinned by our compliance with and commitment to Equal Opportunities for all staff and to our Data Protection Policies.

SNF's recruitment policy will ensure that recruitment procedures are consistent with legislation and good employment practice, and we will recruit staff of the highest calibre
Serco NorthLink Ferries (SNF) will meet all obligations regarding the promotion of equality and diversity

(ii) Outline opening employment programme

SNF anticipates the transfer of the majority of staff, both shore and sea staff who are currently working for the incumbent operator, under Government TUPE guidelines. The information provided by Scottish Ministers on staff eligible for transfer under TUPE regulations has enabled

Serco to plan for the number of staff transferring from the incumbent as follows:

Employer	Roles	Number of staff
NorthLink Ferries	Shore staff, managers and support services	66
David MacBrayne HR (UK)	HR Management	2
David MacBrayne Group	Finance	3
NorthLink Crewing (Guernsey) Ltd	Seafaring staff	308
Total		379

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Our detailed HR Transition plan will include the following areas as the start point of our HR Strategy (Employment Programme):

A specific transition recruitment plan to ensure we have experienced and capable personnel to seamlessly and effectively transition the Northlink Ferries operation to Serco Northlink Ferries

Position descriptions for the new roles proposed for the organisational structure

The process and timeframe for accessing and transferring employee payroll and HR related data

The process and timeframe for transferring all training, qualification, first aid, certification and medical records

Employee communication plan, providing the detailed information staff need to mitigate their apprehension of transitioning to a new operator. We will collaborate with our internal communications team to deliver a plan that will address:

- Serco Corporate – who we are and how we work
 - Working for Serco – what will change and what will stay the same from an employee perspective, including all relevant payroll information, letters of employment etc.
 - Serco Northlink Ferries – our new identity
 - Serco Northlink Ferries – our vision and objectives for the franchise
 - Serco Northlink Ferries – our new organisational structure
 - Meet our team – our Serco Marine & Transport team along with the new Serco Northlink Ferries senior management team will undertake a ‘meet and greet’ road show for all employees
 - The Serco Governing Principles – our corporate values
- Recruitment Process to Commence
 - Stakeholder Engagement
 - Continue to develop relationships with relevant trade unions

During Phase 2 the plan will include

- Implementation of the HR transition plan

- HR Data, payroll and records audit to ensure we have accurate information with respects to the employees who will be transitioning to Serco Northlink Ferries
- Conduct audit on training and development records including certification
- Set up of Empower – Our SAP Human Resource Systems and Processes platform. This will enable us to create a centralised employee database providing accurate employee data, our payroll system and ensuring that all of our HR management processes are streamlined and accurately recorded
- Transition personnel resources to commence service
- Appointment of Senior Management Team, the HR Manager and the Training Officer is completed and they begin their employment
- Initiation of the Employee Communications Plan, including notification of the new organisational structure and information regarding interviewing and appointment of all positions.

Recruitment procedure

Having first extensively researched the local and neighbouring labour markets we will identify a wide recruitment pool, which reaches deep into local communities, employment sectors and groups. We will also draw on our well developed relationships with Welfare to Work, Job Centre Plus, Local Employment Partnerships and Development Agencies, which enables us to tap into their expert knowledge and resources within the area.

SNF's recruitment strategy will seek to maximise the opportunities to recruit a diverse workforce, reflective of the community it serves. Our Recruitment and Selection Policy and Procedures sets out the steps we take to eliminate unfair discrimination in the recruitment process as far as possible, so that no job applicant receives less favourable treatment than another.

We have a number of practical tools and guidance available for attracting staff. For example, all roles are advertised to all Serco staff and to as wide a pool of our communities as possible within a variety of diverse media. All advertisements must include the wording: 'All applicants are welcome to apply regardless of age, disability, gender, marital status, race, nationality or ethnic origin, religion, or sexual orientation. Disabled candidates who meet the minimum requirements for the role will be guaranteed an interview'. Sea staff will have to meet the minimum medical requirements laid down by the MCA as being fit for sea service.

All recruitment will be based on the agreed job descriptions and person specifications and all decisions will be recorded. Where required, we will assess candidates' practical skills.

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All Serco's recruitment and selection processes are underpinned by our compliance with, and commitment to, Equal Opportunities and our Data Protection Acts..

Selection Processes

The recruitment and selection process will not commence until we have:

- An identification and understanding of Scottish Ministers' final requirements

- The most appropriate wage structure through the extensive initial research on local labour market and salary rates
- A clear role description highlighting the duties and responsibilities of the role and written in language that is clear and immediately accessible, outlining how the role contributes to our objectives
- A person specification, setting out the knowledge, experience, competencies, skills and abilities both necessary and desirable to carry out the role
- A description of the values that incorporate the Serco 'Head, Hearts and Hands' Competency and Behaviours Model that we consider critical to success in the role
- An evaluation of the need for the role against our strategic plan and budget which has been completed and signed off by Human Resources (HR) and the SNF Managing Director.

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Adherence to diversity and equality legislation in relation to selection and recruitment

Serco fully appreciates the obligations placed on public sector bodies regarding the promotion of equality and diversity; our recruitment strategy identifies and reflects the need for appointment of a locally representative, culturally and ethnically diverse workforce.

All vacancy adverts will include the following wording, '*all applicants are welcome to apply regardless of age, disability, gender, marital status, race, nationality, or ethnic origin, religion or sexual orientation*'. Subject to operational feasibility, all interviews for a given position will be carried out by the same people. All employees who interview will be given interview training to ensure they understand and abide by legislation and best practice. Notes from interviews will be retained on file should feedback be requested.

(iii) Proposed person who shall have defined authority for establishing, maintaining and reporting on the employment programme

The SNF HR Manager will have day to day accountability for the overall HR strategy and plans, including the employment programme co-ordination, delivery and quality across the organisation and will draw on expertise from the wider Serco, especially HR experts in our other marine and transport operations. .

(iv) A list and structure of procedures for monitoring the employment programme

We will agree with Scottish Ministers the appropriate measurement indicators to track the employment programme performance on a progressive basis at the SNF Board. Monthly reviews by the SNF Senior Management Team (SMT) will ensure:

- Performance against KPIs for people and actions to mitigate any causes of concern or changes in performance
- Recruitment remains compliant with legislation, certification, contractual expectations and our own standards.
- Succession planning remains effective
- Organisation structures are reviewed
- Initiatives are reviewed for effectiveness and relevance, meeting not only the business and community needs but also best practice across the industry

- Progress against the employment programme strategy matched to budgets are examined in detail
- In compliance with STCW and ILO hours of work for seafarers, records will be kept by the Master of the vessels for the hours worked and the hours of rest by each and every officer and crew member. Such records will also be kept by SNF management ashore and monitored by Serco HR

Retention of Records

All information will be treated in line with the principles of the Data Protection Act:

- Documentation relating to the recruitment process e.g. completed application forms and interview notes will be securely stored and access will be limited to those involved in the recruitment process.
- Records relating to the hours of work, rest and vacation of seafarers.
- Records will only be kept for as long as they are necessary and in accordance with legislation for retaining records and relevant to the business.
- Applicants will have the right to feedback and to access any documentation held on them in line with local legislation.
- Candidates will be advised if their details will be kept on file for future vacancies, and will have the opportunity to object.

(v) Approach to constructive working with trade unions

Upon any new contract award we seek to build upon existing consultative arrangements. We have developed modern partnership-type relationships with trade unions and built an impressive track record in the arena of employee relations. Serco continues to maintain constructive relationships with unions, including those currently recognised in our Marine Services business which includes RMT, Nautilus, Unite and Prospect. Serco has not come late to the agenda of employee engagement and working in partnership with trade unions. We have succeeded in building positive relationships and constructive employee relations environments, contributing to the delivery of business transformation within previously difficult employee relations environments including, heavily regulated ex-public sector workforces.

We will establish and revisit the Heads of Agreement with the incumbent Trade Unions at three levels, Serco Group, national officials and the local representatives.

Content Deleted

Employment Programme Plan

Content Deleted

(b)Details of the approach to crewing in relation to the services:

SNF proposes to continue with the current arrangement for employment of sea based staff by a Guernsey based subsidiary company, as is best practice across the marine industry. .

Serco is satisfied that the arrangement is acceptable to the UK Government in regard to non domicile rules and therefore we are comfortable with the model and the saving in employment

costs as a result.

We are in discussion with the Guernsey crew agency who currently administer the subsidiary company of NorthLink's and are willing to manage our subsidiary once it has been established through the mobilisation period. We are also in discussion with two other similar crewing agency providers.

SNF will put in place suitable arrangements with our subsidiary company such that the management of employee issues for the crew employed by them will be carried out by Serco HR Ltd.

Content Deleted

(c)Details of training policies for the development of seagoing and shore staff on the Services. Participants should note that proposals will be required to adequately provide for the continuing and long term requirements of the Services

Our approach to training is to concentrate not only on the technical aspects of business improvement, but also on the people aspects. We believe that:

- Our current and future success is based on the people who work for us
- Our people are our greatest asset, and our greatest cost, especially when we lose them to other organisations
- Learning and development opportunities should be provided for personal growth as well as for clear business benefit
- Serco has a desire that SNF should grow into a 'learning organisation' through the innovative use of technology
- Our people all have the potential and see the benefits of investing in them
- We foster a culture of empowerment of individuals to manage their own development and careers
- Managers at all levels have an important part to play in the development of people and hence the development of the organisation
- It is important to maintain and enhance professional standards and to ensure that appropriate management and related training is also identified and undertaken.

Safety and Environmental training

SNF will place considerable emphasis on the correct management of safety and environmental issues. In particular, we will promote a safety culture that commences with the induction of new staff members and is enshrined within safe operating procedures (e.g. orientation training) and ongoing risk assessments and safety training. Operational activity will thus be under constant review, with monitoring of all safety and environmental incidents which have reporting lines to the highest level within the company.

Identification of Training Needs

Individual training will be linked directly to the required professional competencies and wider strategic change initiatives, but is also to be based on a thorough analysis of existing training records in Northlink, and individual training needs and strategies for individual development. In each operational area, a detailed qualification and training competency matrix will identify in detail the types of training required, the professional, safety and operational qualifications required, and the amount of experience that is likely to be required for individual career progression.

Our training system has been developed to adopt existing staff competencies, but also to establish and maintain a competency matrix that is consistent across the whole business.

Training Identification Process

The Operations & Freight and Customer Services Directors will be responsible for the proper control of training data and the management of the future training needs of their assigned marine and shore staffs. Serco Group policy and procedures determine role profiles and the core competences required for all positions. Our managers are required to identify for each job the main tasks, operations and duties performed, particularly those which affect quality, health and safety or environment.

The specific training needs of staff are clearly identified against those required for satisfactory performance of the tasks, operations and duties of the job being done. Individual training needs shall be identified through training needs analysis during the first half of the year for training to be provided during the following financial year. This data is costed and reviewed against financial commitments quarterly.

Marine staffs are fully governed by UK statutory requirements for the marine industry as administered by the Maritime Coastguard Agency (MCA). These include compliance with the requirements under the provisions of the international Standards of Training, Certification and Watch keeping (STCW 95 as amended) and where appropriate to regulation applicable for smaller vessels. This includes European legislation, such as the harmonised Work Boat Code, Boat Master Regulations 2006 (as amended) and as amplified by Marine Guidance and Safety Notices and Maritime Labour Regulations.

Professional marine qualifications are, selectively, prerequisites for specialist shore based roles.

Vocational training

Evidence based marine vocational training has been successfully introduced into our other Marine Services contracts. Using this best practice we will utilise and develop this training policy within SNF, in order to provide an auditable trail of training processes and evidence of individual competence at all levels in the organisation.

Personal job performance will be continually monitored by line managers and a Training Record maintained and reviewed annually to identify any shortfall in training. The training needs of new members of staff or existing members of staff who change jobs or work on new services will be analysed and training provided as appropriate. All training will be evaluated to assess the effectiveness and impact on the organisation and this information used to improve future training planning.

Annual Training Plan

- **Content Deleted**

The Annual Training Plan will be monitored carefully and reported at the Senior Management Team meetings and the SNF Board on a regular basis throughout each financial year.

Training will be delivered by a combination of internal and external approved providers, ensuring the right balance between high quality and standardised best practice, and local access to and ownership of training.

Safety Training

We consider that it is essential that all staff performing Safety Critical Work comply with all competency related legislation, procedures and standards. As described above, a comprehensive competency management training system will be put in place to ensure that all personnel engaged in work on safety critical systems undergo periodic assessments, so that the standards for such work are achieved and maintained continuously. A competent person will have demonstrated that they can consistently perform work activities to the standard required. This is specified in a competence standard within the training matrix that defines criteria for the measurable outcome of a person's performance.

The assessment process is core to the demonstration of compliance with regulations and for the utilisation of suitable competent staff when deployed to tasks. All staff will be assessed as to their competence to carry out each item of Safety Critical Work for which they are authorised such as our internal permit to work system. Operational tasks require our employees to be familiar with and certificated as competent in the permit to work system. This system ensures that Serco staff are competent to standards that are equal to or exceed MCA and Health and Safety Executive standards.

Continuous Professional Development

Serco actively encourages and sponsors its employees to continually develop themselves. Serco provides a range of opportunities to enable our staff to develop, from day release, part-time studying, evening classes and distance learning. Serco normally sponsor staff by paying for their courses and also reimbursing their professional subscriptions, where appropriate.

Investment in Young People

In co-operation with the two island councils and in Caithness we intend to operate schemes from time to time in order to encourage young people to join the company by offering employment opportunities through approved development & training schemes. In Serco Northlink Ferries we will develop and offer marine industry training programmes as required by the longer term business needs of the Company.

(d)Details of policy on retention and how the Participant would avoid high staff turnover

Our policy for retention recognises that the loss of even a small number of key employees could have serious business consequences. It is for key staff groups that traditional approaches to staff retention are widely felt to be inappropriate or ineffective. In addition, for their line managers, the risk of losing key people in key posts creates a strong sense of vulnerability. This exactly matches the need for a highly technically skilled and customer orientated workforce in the Northern Isles Ferries contract.

From our analysis of NorthLink's operation it appears that staff turnover is not a significant issue, but we recognise the need to avoid complacency and be proactive with a view to planning for the long term sustainability of the operation.

Serco undertakes a risk analysis where we examine two metrics; The first is the likelihood that an individual will leave. Statistically, this means that younger, better qualified people, with

shorter service, few domestic responsibilities, marketable skills and relatively low morale, fall immediately into the high risk category. However, building up and acting upon such a profile needs to take account of both equal opportunities policy as well as the second key element of risk analysis — the consequences of a resignation.

Content Deleted

The key to retention of staff is having a very effective employee engagement strategy. We recognise that Serco will not have the prerogative to recruit and select our entire workforce for SNF. However, we believe that it is important for managers to be able to gain a good understanding of their teams. We will seek to conduct formal 'one on one' meetings during the first six months of the Contract as a profiling exercise allowing us to:

- Ascertain relevant development plans for all employees
- Identify high potential employees, discuss and plan their career progression pathways
- Identify who are the 'at risk' employees and develop relevant management strategies
- Enable our leadership to prioritise the tasks and change processes they need to implement from a workforce perspective.

Engaged and Motivated Workforce

A key objective and measure of success for SNF will be the establishment of an engaged workforce. Good employee engagement at SNF will result in:

- Employees who are aligned to the vision and objectives we seek to achieve
- Employees who are highly committed to their work and respect one another as well as the customers they serve
- Employees who believe that their work is valued and acknowledged by the organisation
- Effective communication across the organisation
- Increased customer service standards
- Increased focus and value on employee and customer safety
- Employees who are pro-actively seeking career progression and development opportunities
- Effective, collaborative engagement with unions

The foundation of engagement relates to how the entire employee lifecycle is managed. SNF will ensure that our recruitment and selection strategies are fair and effective. We will set clearly defined goals for each role and measure and provide feedback on performance and tracking of those goals.

Open communication between staff and management in the workplace is fundamental to employee engagement, and for empowering employees with a genuine belief that their work delivers a valuable contribution to the organisation. When these factors are all in place, we will expect increased levels of employee engagement.

(e) Proposals to ensure that there will be sufficient numbers of appropriately trained staff available at the end of the Contract Period to ensure the continuation of the Services into the next contract. (Together with policies on training, there should be long term planning to ensure that there will be sufficient numbers of appropriately trained staff available for the continuation of the Services well into the future);

The policies and plans outlined earlier in this section on our overall employment programme, training and retention – as a holistic SNF-wide approach to people, will contribute to ensuring the workforce is suitably trained, engaged and available to continue the services beyond the end of the contract. Our plans for people and training will not be time limited to the length of the contract, but will be developed on a sustainable basis.

(f) Industrial relations and other related policies, for example on Fairness at Work. The Operator should be sympathetic to working in partnership with the relevant unions.

Please see earlier response regarding constructive working with trade unions.

(g) The Participant's human resource management policy which should demonstrate a commitment to foster constructive relationships and a partnership approach;

In order to deliver our vision for Northern Isles ferries, Serco Northlink Ferries (SNF) will implement strategies to build engagement, trust and confidence in our employees, and encourage open communication channels between management and employees. Drawn from international human resources expertise, SNF's leadership team will be experienced in driving cultural shift through organisations, to prioritise safety, operations and customer service as everyone's responsibility and ensure that employees feel valued and listened to. As part of this cultural shift, building capability is a key indicator of our success.

Serco has proven experience in managing highly complex unionised workplaces in transport and marine environments. We recognise that success is driven by our people and we treat all of our employees fairly, equitably and with respect. We will bring this approach to Northern Isles and will seek to develop proactive and consultative rather than adversarial relationships with the relevant unions.

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We therefore take the view that HR strategies will lead and drive the overall outcome for Northern Isles Ferries and that as we implement these strategies, we will deliver value for money, better service outcomes and set a high benchmark for Transport Scotland.

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KPIs (Key Performance Indicators)

Our Proposal

Our KPIs comprise the targets and data behind our performance dashboard consisting of a pyramid structure, with our strategic outcomes and key results at the pinnacle and specific KPIs for each of our strategic foundations. Below this level, each area has its own set of lower level KPIs that are managed in line with the Operational Management Methodology described in section 3.1.

We will assess our performance for each KPI as follows:

- Year-on-year (where 2011/12 is available)
- Versus the previous period
- Against our selected benchmark, which we will have in place for all appropriate KPIs
- Against our budget and/or forecast

Our approach will provide us with a comprehensive and cohesive, holistic view of our performance for the entire business, across each of our strategic foundations.

Our KPIs meet the following criteria, as follows:

- **Quantitative** - allowing us to measure and benchmark our performance
- **Practical** - interfacing and supporting Serco Northlink Ferries' (SNF) processes
- **Directional** - demonstrating progress and performance trends
- **Actionable** - being mostly within our control to effect change

Measurable Benefits

The measurable benefits of our KPI plans are that they will facilitate and demonstrate SNF's continuous improvement and progress towards handing back the services in 2018 in a much more successful and sustainable position than it is in today, in line with our commitment to deliver effective, progressive custodianship on behalf of Scottish Ministers.

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PART B: REPORTING REQUIREMENTS

Management reporting systems shall include procedures and format and scheduling of payment:

1. Base Case revisions – Clause16 and Schedule 13, paragraph 2
2. Actual outcome Statement – Clause 15 and Schedule 13, paragraph 3
3. Grant Reconciliation deficit certification – Clause 15 and Schedule 13, paragraph 4
4. Fuel Cost reconciliation certification – Clause 15 and Schedule 13, paragraph 4
5. Performance deductions – Clause 18 and Schedule 13 paragraph 4

Further detail will be provided on:

1. Statistical Data

(a) Traffic volumes by ship by trip

Foot Passengers

Cars

Car Passengers

Coaches

Coach passengers

Freight units

- Accompanied
- Unaccompanied – trailers
- Unaccompanied – containers
- Trade cars

Livestock

Containers

Other Freight

(b) Vessel trips by ship – analysis to include cancelled trips and reasons for cancellation i.e. weather, ship technical faults etc, delayed trips and turn-around times.

(c) Fuel consumption details by ship showing monthly consumption and consumption per trip for main fuel types (i.e. main engines / auxiliary engines)

2. Utilisation

Car deck utilisation by ship by trip

Passenger utilisation by ship by trip

Cabin utilisation by ship by trip

3. Financial Data

P&L Detail

(a) Revenues

(i) Monthly revenues split into major streams

Tourist revenues – on each route split between Transportation, Mini Cruise, Ticket type etc

- Foot Passengers
- Cars
- Car Passengers
- Coaches
- Coach passengers
- Cabin income

OnBoard Sales by route

- Food & Beverage Sales
- Retail/Gifts
- Gaming
- Cabin Income (by type)
- Recliner seats(if applicable)

Freight (on each service by metered length)

- Accompanied
- Unaccompanied – trailers
- Unaccompanied – containers
- Trade cars(if applicable)
- Livestock
- Containers

Other Freight (on each service by relevant measure)

(b) Direct costs of sales.

Variable costs incurred to support these revenue streams, e.g.

- Port dues
- Commissions
- Cost of goods sold
- Damage Claims / Tourist claims inc personal injury

Monthly Vessel cost details by ship.

Crew costs – Deck & Technical.

Split Basic Pay, Overtime, Other payments, NI and Pension costs

Crew costs – Onboard services

Split Basic Pay, Overtime, Other payments, NI and Pension costs

Fuel costs by type, including lubricants.

Any delivery charges and/or sludge disposal costs to be shown separately.

Impact of any financial instruments (e.g. hedges, caps, collars) to be shown separately

Vessel Port Expenses, i.e. ships dues, mooring costs, light dues etc

Vessel maintenance costs

Vessel refit costs. [A note on accounting treatment here would be useful to ascertain if any costs are/have been deferred over a calendar year]

Vessel insurance costs

Vessel depreciation

Charter costs

Lease costs

Other vessel costs not covered by the above, e.g. consumables

Monthly Port costs by port and function.

Staff costs - Split Basic Pay, Overtime, Other payments, NI and Pension costs

Property costs – rents, rates etc

Utility costs – gas, electric, water

Repair & Maintenance costs

Port Equipment repairs & maintenance cost

Port Equipment Ownership costs split depreciation, leasing, rental costs

Weighbridge.

Overhead costs. (Split by function if relevant, e.g. Executive, Finance, IT, HR, Sales & Marketing)

Staff costs - Split Basic Pay, Overtime, Other payments, NI and Pension costs

Equipment costs – depreciation, rentals, lease costs

Property costs

Advertising costs

Agency costs

Insurance costs

Bad Debt provisions / write-offs

Other Costs – any exceptional items charged to the operation

4. Employee Data

Current Organisation Chart

Confirmation of total complement of all seafarers allocated to each vessel

Seafarers - Employees Terms and Conditions including pay rates and allowances

Shore Staff - Employees Terms and Conditions including pay rates and allowances

Bonus arrangements

Details of Seafarers roster e.g. time on/time off.

Details of any shore rostering arrangements (e.g. Port / Call Centre operatives)

Sickness profiles / overall sickness levels and details of any long term sickness

Company Handbook

Company policies

Payroll – payment dates (monthly, weekly), payment requirements

Headcount (on a head and full time equivalent (FTE) basis

Age and Service profiles

Details of any Union agreements

Last 3 years pay deals / awards

Details of Agency Staff / Agency agreements

Details of any employee disputes / consultations / tribunals / grievances

Details of pension arrangements (if applicable)

5. Vessel Data / Audit requirements of Passenger [& Charter Vessels if possible].

Full list of General Particulars for all Vessels.

Asset List of items owned by DML/NL and values attributed to all items not part of any transfer of operatorship.

Detailed spares lists by vessel with values attributed to all items, if not part of leased vessels.

Full list of vessel trading / classification certificates (Detailed list of requirements to be developed)

Copy of latest Quarterly Listing from Class – Lloyds Register

Confirmation of any Conditions of Class and date when required to be resolved.

Access to the Lloyds Register system CD Live for the three passenger (leased) vessels.

Copies of General Arrangement, Capacity, Fire & Safety, Plans

Copies of Trim and Stability Booklets.

Full profiles and plan views showing all dimensions of external ramps.

Confirmation of external ramp fit to all linkspans in all ports served.

Copies of manufacturers bulletins for major items of machinery e.g. main engines, generators, external ramps etc

Copies of Muster Lists approved by MCA for the three passenger vessels

Vessel refit and dry-docking history including the refit cycle - periods out of service for annual/intermediate surveys

Vessel refit and dry-dock programme – future.

Capital Investment programme (Capex) and projected future requirements

Copies of latest Vessel Operating Costs budget and spend against budget

6. Vessel Inspections. Full access to the following during inspections of Passenger & Charter Vessels as applicable.

All vessel certificates and Class and documentary records.
All survey, maintenance, refit and dry-dock records
Inspection of all passenger areas, decks, cargo holds, engine rooms and spaces.
Confirmation of vessel consumptions per day and per leg of fuel oil, MGO, Lub Oil, Fresh water & any variances by season.
Inspection of a number of ballast tanks e.g. Fore Peak, Aft Peak and possibly two other ballast tanks.
Confirmation of vessel compliance with SOLAS, MARPOL, ISPS, and Stockholm Agreement
Confirmation of IT systems installed and vessel communications systems
Inspection of all passenger and crew cabins
Confirmation of spare parts held onboard and ashore
Confirmation of any outstanding planned maintenance
Confirmation of any outstanding vessel repairs e.g. hull damage etc.

7. Vessel Procurement Contracts of Passenger & Charter Vessels.

Fuel Oil Contracts
Marine Gas Oil Contracts
Lub Oil Contracts
Chemicals Contracts
Paint Contracts
Refit & Dry-dock Contracts
GMDSS Maintenance Contracts
Any other substantive contracts in relation to the vessels.

8. Other Contractual arrangements.

Details (start date, contracting parties, value, synopsis of purpose and effect and end dates) of all current contracts including:
Charter-parties for chartered ships
Leases for the three passenger vessels leased from RBS.

Port agreements

Security (by port)

Stevedoring (by port)

Ship management

Equipment leases

Insurance policies / risk coverage

Property Agreements (Rental agreements, Land leasing agreements)

Any other contracts/agreements requiring up front funding or Guarantees

Other

Identify any exceptional issues around freight

- Pattern of Livestock carryings
- Pattern of Hazardous cargo carryings

SCHEDULE 15 - PERFORMANCE REGIME

1. Purpose of this Schedule

- 1.1. This Schedule sets out the Performance Measures to which the Operator must deliver the Services, the mechanism by which any failure to meet applicable Performance Measures will be managed, and the method by which the Operator's performance under this Contract will be monitored.
- 1.2. Performance Measures and Performance Deductions are intended to:
 - 1.2.1. ensure that the Services are of a consistently high quality and meet the Scottish Ministers' requirements as to performance and reliability;
 - 1.2.2. provide a mechanism whereby the Scottish Ministers can show meaningful recognition of any failure by the Operator to deliver the level of Public Services for which it has contracted and, where appropriate, which will be recognised by the service users as consequential to their inconvenience and/or loss; and
 - 1.2.3. incentivise the Operator to meet the Performance Measures and to remedy any failure to meet the Performance Measures expeditiously.

SCHEDULE 15 – PERFORMANCE REGIME

PART 1: MONITORING PROCEDURES

1 Performance of the Services

1.1. The Operator must supply separate reports to the Scottish Ministers for each Lot/route as follows:

1.1.1. Monthly Reports on Performance Measures for Reliability summarised in the form of Annex A;

1.1.2. Monthly Reports on the Performance Measure for Service Levels summarised in the form of Annex A;

1.1.3. Monthly Reports on the Performance Measures for Punctuality summarised in the form of Annex A;

1.1.4. Monthly Reports on the Performance Measures for Compliance summarised in the form of Annex A;

1.1.5. Monthly Reports on the Performance Measures for Customer Complaints summarised in the form of Annex A;

1.1.6. Monthly Reports (in a form to be agreed) on the Relief Events and, if appropriate, the steps being taken to alleviate the consequences of Relief Events;

1.1.7. Monthly Reports (in a form to be agreed) on Scheduled Maintenance carried out and compliance with the Scheduled Maintenance Programme;

1.1.8. a summary (in a form to be agreed) of the position in relation to Clause [Performance deductions] on Performance Measures before Relief Events are taken into account, and Performance Measures after Relief Events are taken into account;

1.1.9. a Report (in a form to be agreed) covering the 6 Month periods on the Performance Measures to be submitted 6 weeks after the end of each period;

- 1.1.10. a summary of the monitoring regime should be made available for publication, in the Operator's annual report and for use by the Scottish Ministers as necessary. The same information should also be made available to the members of the quarterly consultation meetings with users as required under Clause 35;
- 1.1.11. an Annual Report on the Customer Complaint Process;
- 1.1.12. Quarterly carrying information on a route and vessel specific basis summarised from its management systems to include foot passengers, cars, passengers, coaches, coach passengers, Freight units (accompanied/unaccompanied trailers, unaccompanied containers, trade cars, livestock and dry cargo) as applicable. Vessel capacity utilisation, including car deck utilisation, passenger utilisation and cabin utilisation all by vessel and by trip as applicable must also be made available;
- 1.1.13. Quarterly detailed statements of both revenue, variable costs incurred to support those revenue streams and monthly vessel operating costs on a vessel specific basis differentiating between general shore costs, fuel costs, sea-going costs, marketing costs and other costs [D.N. Expand as per optimum data sheet here or elsewhere], including separate financing statements for Grant supported services, which clearly demonstrates that there is no cross subsidisation with any other of the Operator's activities or the activities of any Associated Company;
- 1.1.14. Annual safety reports on a route specific basis to include detailed information about any reportable accidents, including any major injuries and serious injuries, and any hazardous events; and
- 1.1.15. An annual environmental performance report on a route specific basis detailing the fuel efficiency characteristics achieved by the vessels compared to the baseline (tender) predictions and the energy efficiency measures introduced across the services and their impact on reducing Carbon release.

- 1.2. The Operator will submit the route/vessel specific Monthly/Quarterly Reports as required to the Scottish Ministers within 6 weeks after the end of the relevant Month/Quarter, and the annual reports within 6 weeks of the relevant year, in such format as notified by the Scottish Ministers from time to time.

- 1.3. A Performance Measure Report will be prepared on a route/Lot specific basis to accompany the monthly, quarterly and annual reports and summarize the performance in such format as notified by the Scottish Ministers from time to time. As a minimum, the following information must be provided in respect of that quarter or year as appropriate:
 - 1.3.1. for each Performance Measure, the actual defined performance achieved over the quarter, and that achieved over the previous 12 months;

 - 1.3.2. a summary of all Performance Measure Failures, Incidents and Problems that occurred during the reported period the cause of the fault and action being taken to reduce the likelihood of recurrence;

 - 1.3.3. which Performance Measure Failures and Incidents remain outstanding and progress in resolving them;

 - 1.3.4. for any repeat Incidents and Performance Measure Failures, actions taken to resolve the underlying cause and prevent recurrence;

 - 1.3.5. for any Performance Measure Failures for which the Operator believes Relief Event will apply, the underlying cause of such Performance Measure Failure. The Operator must ensure that each such Performance Measure Report will be accompanied by appropriate data and information which substantiate the circumstances or events giving rise to Relief Event;

 - 1.3.6. the value of Performance Deductions accruing in that reporting period;

 - 1.3.7. the Performance Deductions to be applied in respect of that reporting period indicating the Performance Measure Failure(s) to which the Performance Deductions relate;

- 1.3.8. a rolling total of the number of Performance Measure Failures that have occurred and the amount of Performance Deductions that have been incurred by the Operator over the previous year; and
 - 1.3.9. such other details as the Employer may reasonably require from time to time.
- 1.4. The Operator and the Scottish Ministers must attend Service Performance Review Meetings on a quarterly basis (unless otherwise agreed) and the Performance Measure Report must be reviewed and its contents agreed by the parties at the meeting(s) which immediately follows the issue of such report in accordance with paragraph 0.
- 1.5. The Service Performance Review Meetings will be the forum for the review by the Operator and the Scottish Ministers of the Performance Measure Reports. The Performance Review Meetings must (unless otherwise agreed):
- 1.5.1. take place within four weeks of the Performance Measure Report being issued by the Operator;
 - 1.5.2. take place at such location and time (within normal business hours) at the Scottish Ministers' premises unless otherwise agreed in advance, no provision will be made by the Scottish Ministers for the expenses of the Operator representatives to attend such meetings;
 - 1.5.3. be attended in person by the Operator Representative and the Scottish Ministers' Representative and relevant [Key Personnel]; and
 - 1.5.4. be fully minuted by the Operator. The prepared minutes will be approved or corrected by the Scottish Ministers and thereafter circulated by the Operator to all attendees at the relevant meeting and also to the Senior Operator's Representative and any other recipients agreed at the relevant meeting. The minutes of the preceding Performance Review Meeting will be agreed and signed by both the Operator's Representative and the Scottish Ministers' Representative at each meeting.

- 1.6. The Scottish Ministers are entitled to raise any additional questions and/or request any further information regarding any Performance Measure Failure.
- 1.7. The Operator must provide to the Scottish Ministers such supporting documentation as they may reasonably require in order to verify the level of the performance by the Operator and the calculations of the amount of Performance Deductions for any specified period.
- 1.8. Where the Scottish Ministers considers that the Operator has failed to provide a Performance Measure Report which materially complies with paragraph 1.3, the Scottish Ministers will notify the Operator in writing of such non-compliance (which notice must contain details of the alleged non-compliance) within five Business Days of the date of the Scottish Ministers' receipt of the Performance Measure Report or within five Business Days of the date on which the Performance Measure Report should have been provided in accordance with paragraph 1.3 and the Operator must remedy such failure within ten Business Days.
- 1.9. The Scottish Ministers may, at their own expense, carry out such monitoring and/or audit of the Services as they determinate may be required in order to measure the performance of the Operator against the Performance Measures, provided that such monitoring and/or audit does not have an adverse effect on the provision by the Operator of the Services or its ability to meet the Performance Measures.
- 1.10. A summary of the monitoring regime for each Service Year should be made available for publication by the Operator within 6 weeks after the end of the relevant Service Year and for use by the Scottish Ministers as necessary. The same information should also be made available to the members of the consultation meetings with users as required under Clause 35.

**This is the Annex A referred to in the foregoing Schedule 15 – Part 1 to the Contract
 Between the Scottish Ministers and XXXX**

**SCHEDULE 15 – PART 1
 ANNEX A - MONITORING PROCEDURES – SAMPLE REPORTS**

Reliability:

Vessel	In the relevant Quarter:			
	No. of scheduled sailings	No. of sailings completed	Sailings completed (%)	Applicable Relief Event (if any)

Punctuality (Connectivity):

Vessel	Number of times in the relevant Quarter that the Vessel:		
	Met the Performance Measure	Did not meet the Performance Measure	Applicable Relief Event (if any)

Punctuality (General):

Vessel	Number of times in the relevant Quarter that the Vessel:		
	Met the Performance Measure	Did not meet the Performance Measure	Applicable Relief Event (if any)

Compliance:

Quarter	Number of notices issued by HSE, SEPA or other governmental or statutory body or agency and of criminal fines or convictions	Further details of notices / fines / convictions

Customer Complaints:

Quarter	Quantity of customer complaints received in relation to the Services	Further details of customer complaints (including how complaint was escalated)

		/ resolved) in accordance with the Customer Complaint Process
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[Relief Events]

Quarter		
----------------	--	--

[insert box for Scheduled Maintenance]

[Management information]

Quarter		
----------------	--	--

[Accounting Information]

Quarter		
----------------	--	--

[Health and Safety]

Year		
-------------	--	--

[Environmental performance]

Year		
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SCHEDULE 15 – PERFORMANCE REGIME

PART 2: PERFORMANCE MEASURES

1 Definitions

"Aberdeen Services" (Lot B) comprise the Aberdeen Passenger Services and the Aberdeen Freight Services (both defined at Section B below) and mean the following Sailings forming part of the Services:- .

- Aberdeen to Lerwick
- Lerwick to Aberdeen
- Aberdeen to Kirkwall (Hatston) to Lerwick
- Lerwick to Kirkwall (Hatston) to Aberdeen

"Pentland Firth Services" (Lot A) mean the following Sailings forming part of the Services:-

- Stromness to Scrabster
- Scrabster to Stromness

."Average Grant per Sailing" means in any Service Year the Grant (excluding Fuel Costs and any Additional Grant) for that Service Year divided by the number of Sailings on the Scrabster - Stromness and Lerwick - Aberdeen routes in that Service Year as relevant.

"Sailing" means each sailing on the Timetable between the Harbours [on each route]

In the event that part of a Month has to be measured for the purposes of this Part of the Schedule, performance measures and deductions will be pro rated relative to the number of scheduled Sailings in that Month and relevant part of a Month.

SECTION A

PERFORMANCE MEASURE FOR RELIABILITY:

<p>Performance Measure for Reliability</p>	<p>The Performance Measure for Reliability is the completion by the relevant Vessel of each Sailing identified as part of the Services in the Timetable. A Sailing which either does not commence or does not complete in accordance with the Timetable as a direct consequence of a Relief Event will be deemed to have been completed for the purpose of the Performance Measure for Reliability.</p> <p>On the Scrabster-Stromness route a Sailing which arrives at the same time as, or after, the next Sailing advertised in the Timetable is due to arrive will be regarded as not having been completed.</p>	
<p>Periods to be measured</p>	<p>Quarterly</p>	
<p>Classification of reliability over period:</p>	<p>Deduction to apply to classification:</p>	
<p>1 Less than 100% of Sailings meet the Performance Measure for Reliability</p>	<p>Lot A</p> <p>Deduct 100% of the Average Grant per Sailing for each affected Sailing</p>	<p>Lot B</p> <p>Deduct 100% of the Average Grant per Sailing for each affected Sailing</p>

SECTION B

PERFORMANCE MEASURE FOR PUNCTUALITY (CONNECTIVITY):

"**Aberdeen Freight Service**" means the Vessels used by the Operator to provide the freight, hazardous cargo and livestock accommodation service from time to time, being as at the Commencement Date the **[M.V Hascosay and the M.V Clare]**;

"**Aberdeen Passenger Service**" means the Vessels providing the Aberdeen Services but excluding the Aberdeen Freight Service.

Performance Measure for Punctuality (Connectivity)		<p>A Vessel providing a Service meets the Performance Measure for Punctuality (Connectivity) if the Vessel arrives at the destination Harbour in accordance with the Timetable and in time for passengers to connect with any departing bus or train which the particular sailing is intended to service (assuming that the relevant bus or train departs at the published time).</p> <p>A Vessel which does not meet the Performance Measure for Punctuality (Connectivity) for a sailing either because it is late, or fails to run, as a direct consequence (in either case) of a Relief Event will be deemed to have met the Performance Measure for Punctuality (Connectivity) in respect of the relevant sailing.</p>	
Periods to be measured		Quarterly	
Classification of punctuality over period:		Deduction to apply to classification:	
		Lot A	Lot B
1	Less than 100% of Sailings meet the Performance Measure for Punctuality (Connectivity)	Deduct 100% of the Average Grant per Sailing for each incident of lateness.	Deduct 100% of the Average Grant per Sailing for each incident of lateness.

SECTION C

PERFORMANCE MEASURE FOR PUNCTUALITY (GENERAL):

<p>Performance Measure for Punctuality (General) Arrival at the destination Harbour means that the Vessel is all fast and secure alongside.</p>	<p>A Vessel providing the Service meets the Performance Measure for Punctuality if:-</p> <p>(a) in the case of a Pentland Firth Service, the Vessel arrives at the destination port within 10 minutes of the Timetable</p> <p>(b) in the case of an Aberdeen Passenger Service, the Vessel arrives at the final destination port or any midway port at which it is due to call in accordance with the Timetable within 30 minutes of the Published Timetable and</p> <p>(c) in the case of an Aberdeen Freight Service, the Vessel arrives at the final destination port or any midway port at which it is due to call in accordance with the Timetable within 45 minutes of the Timetable.</p> <p>Unpunctual arrivals are categorized as follows:</p> <p>Lot A Service</p> <p>Level A Lateness - 10 -20 Minutes later than Published Timetable</p> <p>Level B Lateness - over 20 Minutes later than the Timetable</p> <p>Lot B Passenger Service</p> <p>Level A Lateness - 30 - 60 minutes later than the Timetable</p> <p>Level B Lateness - over 60 Minutes later than the Timetable</p> <p>Lot B Freight Service</p> <p>Level A Lateness - 45 - 60 minutes later than the Timetable</p> <p>Level B Lateness - over 60 Minutes later than the Timetable</p>
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		A Vessel which does not meet the Performance Measure for Punctuality for a Sailing either because it is late, or fails to run, as a direct consequence (in either case) of a Relief Event will be deemed to have met the Performance Measure for Punctuality in respect of the relevant Sailing.	
Periods to be measured		Quarterly	
Classification of punctuality over period:	Deduction to apply to classification:		
		Lot A	Lot B
1	Less than 100% of Sailings meet the Performance Measure for Punctuality to Level A	Deduct 25% of the Average Grant per Sailing for the relevant Sailing for each incident of lateness.	Deduct 25% of the Average Grant per Sailing for the relevant Sailing for each incident of lateness.
2	Less than 100% of sailings meet the Performance Measure for Punctuality to level B	Deduct 50% of the Average Grant per Sailing for the relevant Sailing for each incident of lateness.	Deduct 50% of the Average Grant per Sailing for the relevant Sailing for each incident of lateness.

SECTION D

PERFORMANCE MEASURES FOR COMPLIANCE:

Performance Measure for Compliance	The Performance Measure for Compliance is compliance with all Applicable Law. This Performance Measure will not apply to notices issued on the Operator or any sub-contractor thereof in respect of actions or incidences of non-compliance by a third party (not being an Associated Company).
Periods to be measured	Quarterly
Classification of service levels	Deduction to apply to classification:

over period:		Lot A	Lot B
1	No notices as a result of non-compliance issued on the Operator or any sub-contractor thereof by or on behalf of HSE, SEPA or any other governmental or statutory body or agency and no criminal convictions / fines	No deduction (compliance)	No deduction (compliance)
2	1 – 2 notices as a result of non-compliance issued on the Operator or any sub-contractor thereof by or on behalf of HSE, SEPA or any other governmental or statutory body or agency or a conviction for a summary offence resulting in a Level 1 or 2 fine	Deduct 25% of the Average Grant per Sailing for each notice, conviction or fine	Deduct 25% of the Average Grant per Sailing for each notice, conviction or fine
3	3 – 5 notices as a result of non-compliance issued on the Operator or any sub-contractor thereof by or on behalf of HSE, SEPA or any other governmental or statutory body or agency or a conviction for a summary offence resulting in a Level 3, 4 or 5 fine	Deduct 50% of the Average Grant per Sailing for each notice, conviction or fine	Deduct 50% of the Average Grant per Sailing for each notice, conviction or fine
4	6 or more notices as a result of non-compliance issued on the Operator or any sub-contractor thereof by or on behalf of HSE, SEPA or any other governmental or statutory body or agency or a conviction for an indictable offence	Deduct 75% of the Average Grant per Sailing for each notice, conviction or fine	Deduct 75% of the Average Grant per Sailing for each notice, conviction or fine

SECTION E

PERFORMANCE MEASURE FOR REPORTING:

Performance Measure for Reporting		The Operator meets the Performance Measure for Reporting if it submits the Monthly/Quarterly reports required under Schedule 15 within 6 weeks after the end of the relevant Month/Quarter.
Periods to be measured		Quarterly
Classification of punctuality over period:		Deduction to apply to classification:
1	Failure to submit any of the reports required in accordance with Schedule 15 within 6 weeks after the end of the relevant Quarter.	Deduct 1% of the following Monthly Instalment.

SECTION F

PERFORMANCE MEASURES FOR SERVICE LEVELS – CUSTOMER COMPLAINTS

<p>Performance Measure for Services – Customer Complaints</p>	<p>The Performance Measure for Service Levels is the quantity of customer complaints received in relation to the Services which, in the opinion of the Scottish Ministers, have not be managed in good faith in accordance with the Customer Complaint Process prior to submission to the Appeals process.</p> <p>Where more than one complaint arises out of a single act or omission by the Operator in relation to the Services, those complaints will be treated as one complaint for the purposes of this Performance Measure for Service Levels. Complaints measured under this Performance Measure will be limited to any complaint which the Scottish Ministers deems to be a valid complaint received by the Operator in the period up to the end of the Quarter following the Quarter in which the incident giving rise to the complaint occurred.</p> <p>For the avoidance of doubt, where a complaint directly relates to an incident in relation to which deductions have been applied pursuant to Sections A, B, C and/or D of this Schedule 15, Part 2, the complaint will be disregarded for the purposes of this Performance Measure for Service Levels.</p>
<p>Periods to be measured</p>	<p>Quarterly</p>
<p>Classification of service levels over period:</p>	<p>Deduction to apply to classification:</p>
<p>1 All valid complaints managed in good faith in accordance with the Customer Complaints Process prior</p>	<p>No Deduction (compliance).</p>

	to submission to the Appeals process	
2	1 valid complaints failing to be managed in good faith in accordance with the Customer Complaints Process prior to submission to the Appeals process	Deduct 0.1% of the following Monthly Instalment.
3	2 or 3 valid complaints failing to be managed in good faith in accordance with the Customer Complaints Process prior to submission to the Appeals process	Deduct 0.3% of the following Monthly Instalment per complaint.
4	3 or more valid complaints failing to be managed in good faith in accordance with the Customer Complaints Process prior to submission to the Appeals process	Deduct 0.5% of the following Monthly Instalment per complaint.

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SCHEDULE 16 - VARIATION TO SERVICES

CONTRACT VARIATION FORM

<p>This Contract Variation is entered into under and incorporates the provisions set out in the Contract between The Scottish Ministers the Operator") dated [].</p> <p>The Contract Variation anticipated by this Contract Variation Form will commence on [] and expire (unless terminated earlier in accordance with the Contract) on [].</p>	
Title of Contract Variation	
Originator	Date
	Telephone
PART 1 - SPECIFICATION	
DESCRIPTION OF CONTRACT CHANGE: The Contract must incorporate the following Contract Variation : [A Description of the Contract Variation should be inserted here]	
INTENDED PURPOSE OF THE CONTRACT CHANGE: The Operator and the Scottish Ministers jointly intend that the purpose of the Contract Variation will be: [A description of what it is intended that the provision of the Contract Variation will accomplish should be inserted here]	
COST VARIATIONS: In respect of the Contract Variation defined above, the Grant which the Scottish Ministers will pay to the Operator will be amended as follows: [All changes to the Grant payable by the Scottish Ministers and the duration of those changes in respect of the Contract Variation should be inserted here]	
MILESTONE DATES: (The Parties should identify here any Milestone Dates (if any) in respect of the implementation of the Contract Variation)	

PART 2 - AUTHORISATION	
SIGNED on behalf of the Scottish Ministers	SIGNED BY on behalf of [] (the Operator)
Name:	Name:
Title:	Title:
Signature:	Signature:
Date:	Date:

THIS CONTRACT VARIATION FORM WILL NOT BE VALID UNLESS SIGNED ON BEHALF OF THE SCOTTISH MINISTERS

SCHEDULE 17 - BENCHMARKING

1. FREQUENCY OF BENCHMARK REVIEW

1.1 The Scottish Ministers may, by written notice to the Operator, require a Benchmark Review of any or all of the Services.

1.2 The Scottish Ministers will not be entitled to carry out a Benchmark Review during the first 2 year period from the Commencement Date, nor at intervals of less than 12 months after any previous Benchmark Review. The Scottish Ministers will not request more than 2 Benchmark Reviews of all the Services.

2. PURPOSE AND SCOPE OF BENCHMARK REVIEW

2.1 The purpose of a Benchmark Review will be to establish whether a Benchmarked Service is and/or the Benchmarked Services as a whole are, Good Value.

2.2 The scope of the Benchmarked Services will be identified by the Scottish Ministers in the written request given under paragraph 1.

3. APPOINTMENT OF BENCHMARKER

3.1 The Employer must appoint the Benchmarker to carry out the Benchmark Review.

3.2 The costs and expenses of the Benchmarker and the Benchmark Review will be met by the Scottish Ministers. However, each party must bear its own internal costs of the Benchmark Review.

4. BENCHMARKING PROCESS

4.1 The Scottish Ministers will require the Benchmarker to produce, and to send to each party for approval, a draft plan for the Benchmark Review within 10 days after the date of the appointment of the Benchmarker, or such longer period as the Benchmarker may reasonably request in all the circumstances. The plan must include:

4.1.1 a proposed timetable for the Benchmark Review;

- 4.1.2 a description of the information that the Benchmarker requires each party to provide;
 - 4.1.3 a description of the benchmarking methodology to be used;
 - 4.1.4 a description that demonstrates objectively and transparently that the benchmarking methodology to be used is capable of fulfilling the benchmarking objectives;
 - 4.1.5 an estimate of the resources required from each party to underpin the delivery of the plan;
 - 4.1.6 a description of how the Benchmarker will scope and identify the Comparison Group; and
 - 4.1.7 details of any entities which the Benchmarker proposes to include within the Comparison Group.
- 4.2 Each party must give notice in writing to the Benchmarker and to the other party within 10 days after receiving the draft plan, advising whether it approves the draft plan, or, if it does not approve the draft plan, suggesting amendments to that plan. Neither party will unreasonably withhold or delay its approval of the draft plan. Any suggested amendments must be reasonable.
- 4.3 Where a party suggests amendments to the draft plan under paragraph 4.2, the Benchmarker must, if it believes the amendments are reasonable, produce an amended draft plan. Paragraph 4.2 will apply to any amended draft plan.
- 4.4 Failure by a party to give notice under paragraph 4.2 will be treated as approval of the draft plan by that party.
- 4.5 Once the plan is approved by both parties, the Benchmarker will carry out the Benchmark Review in accordance with the plan. Each party must procure that all the information described in the plan, together with any additional information reasonably required by the Benchmarker is provided to the Benchmarker without undue delay. If the Operator fails to provide any information requested from it by the Benchmarker and described in the plan such failure will constitute a material Default for the purposes of this Contract.

- 4.6 Each party shall co-operate fully with the Benchmarker, including by providing access to records, technical documentation, premises, equipment, systems and personnel at all times reasonably requested by the Benchmarker, provided that the Benchmarker is instructed to minimise any disruption to the Services.
- 4.7 Either party may provide additional material to the Benchmarker to assist the Benchmarker in conducting the Benchmark Review.
- 4.8 Once it has received the information it requires, the Benchmarker will:
- 4.8.1 finalise a sample of entities constituting the Comparison Group and collect data relating to Comparable Services. The selection of the Comparison Group (both in terms of number and identity of entities) and Comparable Services will be a matter for the Benchmarker's professional judgment using:
- 4.8.1.1 information from other service providers to the Scottish Ministers;
- 4.8.1.2 survey information;
- 4.8.1.3 market intelligence;
- 4.8.1.4 the Benchmarker's own data and experience;
- 4.8.1.5 relevant published information;
- 4.8.1.6 information from consultancies and/ or other vendors or purchasers of Comparable Services; and
- 4.8.1.7 information from 'in-house' providers to the Scottish Ministers to the extent that Benchmarker considers that they are valid comparators;
- 4.8.2 by applying the adjustment factors listed in paragraph 4.9 and from an analysis of the Comparable Services derive the Equivalent Services Data;
- 4.8.3 using the Equivalent Services Data calculate the Average Price;

- 4.8.4 compare the Operating Costs attributable to the Benchmarked Services (having regard in particular to the Performance Measures and Performance Deductions regime) with the Average Price using the Equivalent Services Data; and
 - 4.8.5 determine whether or not each Benchmarked Service is and/or the Benchmarked Services as a whole are Good Value.
- 4.9 In carrying out the benchmarking analysis the Benchmarker will have regard to the following matters when performing a comparative assessment of the Benchmarked Services and the Comparable Services in order to derive Equivalent Services Data:
- 4.9.1 the contractual and business environment under which the Services are being provided (including the scope, scale, complexity and geographical spread of the Services);
 - 4.9.2 any front-end investment and development costs of the Operator;
 - 4.9.3 the Operator's risk profile including the financial, performance or liability risks associated with the provision of the Services as a whole;
 - 4.9.4 the extent of the Operator's management and contract governance responsibilities; and
 - 4.9.5 any other factors reasonably identified by the Operator, which, if not taken into consideration, could unfairly cause the Operator's pricing to appear non-competitive (such as erroneous costing or over-aggressive pricing).

5. BENCHMARKER'S REPORT

- 5.1 The Benchmarker will be required to prepare a Benchmarking Report and deliver it simultaneously to the parties, at the time specified in the plan approved under paragraph 4 of this schedule, setting out its findings. Those findings will be required to:
 - 5.1.1 include a finding as to whether or not each Benchmarked Service is and/or whether the Benchmarked Services as a whole are, Good Value;

- 5.1.2 include other findings (if any) regarding the quality and competitiveness or otherwise of those Services; and
- 5.1.3 if any Benchmarked Service is not Good Value, or the Benchmarked Services as a whole are not Good Value, specify the changes that would be required to the Operating Costs to make that Benchmarked Service or those Benchmarked Services as a whole Good Value.
- 5.2 The Benchmarker will act as an expert and not as an arbitrator.
- 5.3 For the avoidance of doubt, Benchmark Reviews will not result in any increase to the Operating Costs or any decrease in the performance of any Services or Performance Measures.
- 5.4 If the Benchmarking Report states that any Benchmarked Service is not Good Value, or that the Benchmarked Services as a whole are not Good Value then the Operator must (subject to paragraphs 5.6 and 5.7) treat the changes set out in the Benchmarking Report as a deemed Cure Plan and implement them as soon as reasonably practicable within a timescale agreed with the Scottish Ministers but in any event within no more than one month.
- 5.5 Subject to the Operator's right to dispute or reject the Benchmarking Report under paragraphs 5.6 or 5.7 of this schedule, if the Benchmarking Report determines that any or all of the Benchmarked Services are not Good Value, any failure by the Operator to reduce the Operating Costs in accordance with such timescales agreed between the parties under paragraph 5.4 of this schedule will, without prejudice to any other rights or remedies of the Scottish Ministers, constitute an Event of Default for the purposes of this Contract.
- 5.6 The Operator is entitled to reject a Benchmarking Report if the Operator reasonably considers that the Benchmarker has not followed the procedure for the related Benchmark Review as set out in this schedule in any material respect.
- 5.7 The Operator will not be obliged to implement any Benchmarking Report to the extent this would cause the Operator to provide the Services at a loss, or to the extent the Operator cannot technically implement the recommended changes.

- 5.8 In the event of a dispute or rejection of the Benchmarking Report under paragraphs 5.6 and/or 5.7 of this schedule the matter will be settled in accordance with Clause 49 (Dispute Resolution Procedures) of the Contract. For the avoidance of doubt in the event of a dispute between the parties, the Operator must reduce the Grant in accordance with the Benchmarking Report and paragraph 5.4 (where applicable) pending the dispute resolution process.
- 5.9 On conclusion of the dispute resolution process, if it is determined that all or any part of the Benchmarking Report recommendations regarding any reduction in the Grant will not continue to be implemented by the Operator, the Scottish Ministers must repay to the Operator within 30 days the difference between the revised Grant paid by the Scottish Ministers up to and including the date of the settlement of the dispute and the date upon which the recommended reduction in Grant took effect.

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