

**The Highland Council**  
**Community Services Committee**  
**6 November 2014**

Agenda Item	9
Report No	COM 35/14

**Corran Ferry**

**Report by Director of Community Services**

**Summary**

This report updates Members on feedback received from Community Councils and Argyll & Bute Council regarding the socio-economic study undertaken for Corran Ferry. It also asks the Committee to recognise the local inflationary costs associated with Corran Ferry and the need for the service to be run in such a way that it covers its costs.

**1. Background**

- 1.1 The Corran Ferry is located in west Lochaber and serves Ardgour, Morvern and the Ardnamurchan peninsula. It is the second busiest ferry in Scotland with over 250,000 vehicle trips per year.
- 1.2 In September 2013, the TECS Committee approved a 30 pence tickets price increase from November 2013 in addition to the usual 4% inflationary increase already implemented in April 2013.
- 1.3 These increases were in response to extraordinary rises in individual costs, such as fuel, which have resulted in an average 5.3% increase per annum on the total costs of running the Corran Ferry since 2004/05.
- 1.4 Concerns were raised over the impact the recent fare increases could have on the peninsula with direct costs to the local community, tourists and commercial operators. In order to understand the potential impacts, the Committee requested that a socio-economic study be undertaken.
- 1.5 AECOM were commissioned to undertake the study and this was completed in January 2014 (see **Appendix A**). The main aims of the study were to:
  - produce a socio economic profile of the main area served by the Corran Ferry;
  - assess the role of the current fare levels; and
  - assess the socio-economic impacts of further fare increases.
- 1.6 Following the completion of the study, a presentation was given by AECOM to the February 2014 TECS Committee to inform the findings. The future fare increases considered theoretical 10% and 25% rises respectively in order to assess the potential impacts. The conclusions of the study were that a 10% fare increase would have a slight effect on residents, tourists and businesses

while the effects of a 25% increase would predictably be far more significant.

- 1.7 The study also identified that on comparison, Corran Ferry fares could be considered low (November 2013 fares utilised in study). The book of 30 tickets available to users represents a discount of 71% on the price of an ordinary single fare, which is much more than multi-journey tickets available on other Scottish Ferry Services. Although the book requires an upfront payment of £60, which could be considered high, this equates to a single fare of £2.23 which is low in absolute terms.
- 1.8 The report went on to indicate that the fare structure has however been sustained over such a long period that the users of the Corran Ferry service have become accustomed to the level of costs and budget for it accordingly along with their other personal outgoings. Although the fares may be comparably low, any increase is unlikely to be looked upon favourably due to users having to re-adjust their household budgets to accommodate it.
- 1.9 At the May 2014 Community Services Committee, it was agreed to defer consideration of further increases in fares until the feedback on the socio-economic study was available from Community Councils and Argyll and Bute Council. It was also agreed to review the operational costs and income.

## **2. Consultation Responses**

- 2.1 No responses have been received to date from Community Councils on the socio-economic study, despite being requested by the Council on at least two occasions. It is considered that the busy summer tourist period combined with major events such as the referendum contributed to this. Officers are however aware of the strong feelings in the area which was apparent at the consultation events held in 2013 and the subsequent responses to those.
- 2.2 Argyll & Bute Council have referenced the socio-economic report section which indicates that, "*The main impact of a 25% increase with regard to freight operators would be increased transport charges, reduced operating margins and operators would give full consideration for routing via Oban-Craignure. For other businesses serving the peninsula they would build the ferry costs into their charges.*" This would therefore have the potential for increased traffic, particularly freight vehicles, on the A828 to Oban and on the A849 on Mull.

## **3. Background – Cost Analysis**

- 3.1 As indicated above, rises in individual costs have resulted in an average 5.3% increase per annum in the total costs of running the Corran Ferry Service. The main running costs that have seen significant increases over the last ten year period are associated with fuel, refit, engine repairs and maintenance, and staffing costs, as shown in **Appendix A**. The total expenditure and income is shown in **Appendix B**.
- 3.2 In 2013/14, Corran Ferry income increased by £44,298 from the previous

year, however, the service still incurred a deficit of £221,764. It is considered that the 30p rise late in the year had little effect on takings due to the off season commencement and the nominal consequence this would have had on tourists, with residents purchasing books of tickets prior to the fare levels actually increasing. The 30p rise will however have a greater effect in 2014 and is reflected in the fare predictions.

- 3.3 Following the annual inflationary rise in April 2014, along with the November 30p rise, it is predicted that ferry income will increase by £85,249 in 2014/15. An exercise is also underway at managing the costs of the service and some predicted improvement is expected this year in terms of fuel and maintenance costs which have remained constant and decreased respectively in the year to date. This will result in the £221,764 deficit reducing to a predicted £115,000 for 2014/15.
- 3.4 Should fares continue to increase at an approximate 4% per annum with costs remaining constant, which would be difficult to achieve itself, the service is still likely to record a loss. This would be predicted at £66,874 for 2015/16. An ongoing deficit is likely to have State Aid implications, which are discussed in the following section.

#### **4. State Aid Regulations**

- 4.1 State Aid is a European Commission (EC) term which refers to forms of public assistance, given to undertakings on a discretionary basis, which has the potential to distort competition and affect trade between Member States of the European Union.
- 4.2 Whenever the public sector (in this case Highland Council) funds and/or operates an activity for which a market exists, the Council itself is likely to be viewed as an undertaking for the purposes of State Aid assessment. This is the case for Corran Ferry, and therefore four State Aid tests can be applied to ascertain whether the funding is likely to meet the EC's definition of State Aid. The tests are cumulative and all four must be met for State Aid to be present. The four tests are:
1. Is there a transfer of state resources?
  2. Does the intervention give the recipient an advantage on a selective basis?
  3. Has competition been or likely to be distorted?
  4. Is the intervention likely to affect trade between member states?
- 4.3 The Highland Council has been working towards the Corran Ferry being operated as a viable commercial service, i.e. run in such a way that it covers its costs. Assuming we the Council can achieve this, then the answer to the above criterion is likely to be no as the service would support itself and there would be no transfer of state resources and no distortion of competition due to the intervention of The Highland Council. If however, the Corran Ferry service continues to operate at a deficit, then the answer to the above criterion is likely to be yes and the strong possibility exists that the public funding of the Corran Ferry service deficit may be viewed as State Aid. It should be noted

that only the EC has competence over whether a measure is or is not State Aid.

- 4.4 If the Corran Ferry service continues to run at a loss and it is considered there is State Aid present, the most obvious way to eliminate future risk is to publicly tender for the service. In this way, the Highland Council can demonstrate that the market has been tested. If there are no bidders for the service then it would be possible to argue that the 3rd and 4th State Aid tests above are not met.

## **5. Long Term Sustainability**

- 5.1 It is clear that cost rises of 5.3% per annum are unsustainable in the longer term as residents, tourists, and business would struggle to keep up with this level of increase if the service is to remain commercially viable.
- 5.2 Managing costs, where possible, has to be at the forefront of any strategy moving forward. Due to the requirement to maintain a reserve vessel (Maid of Glencoul) for maintenance and refits, there are higher costs associated with the current operation than could be expected with a larger operation, such as Calmacs, where reserve vessels can be scheduled to serve multiple locations, offering economies of scale, and therefore achieve better value for money. It should be noted that historically, refit times for Corran have clashed with major events.
- 5.3 The scheduled 2014 refit of MV Coran clashed with the Mull Rally however through discussions with Calmac it was rescheduled to a less busy time starting this year. Owning the reserve vessel is however an expensive way to cover maintenance periods and the MV Corran visiting the Clyde repair yard.
- 5.4 To this end, discussions have commenced with the Maritime and Coastguard Agency (MCA) and Calmac on the possibility of Calmac providing a relief vessel. Currently the MV Loch Bhrusda is being proposed as a potential vessel that could take up this duty as it is believed that the vessel has suitable power and vehicle capacity. Trials need to be conducted on the slipways to determine suitability and discussions are also required on crewing arrangements. It is understood that trials on the slipways will be undertaken before the end of 2014, and if successful, further discussions on crewing and procurement would be undertaken.
- 5.5 It is also intended to go a stage further and discuss with Transport Scotland options for them potentially taking ownership of the Corran Ferry operation. The Committee should however be made aware that these discussions are exploratory in nature only. Officers are not in a position to make any recommendations on the future of the Corran Ferry service until further work has been carried out into the requirements of such an undertaking and examined the risks involved.
- 5.6 It should however be noted that Transport Scotland has suggested in initial talks that, while they are generally amenable to taking ownership of lifeline services,

they would not wish to take on a financial burden and would therefore look for the service to be commercially viable before any potential transfer. It is not therefore anticipated that any future operation, even if it were to be run by Transport Scotland, would be subsidised.

- 5.7 In examining the existing operation, it was also found that the ticketing system is at the end of its lifespan and will require to be renewed in the immediate future which could potentially add a further financial burden to the operation. This is now being reviewed in terms of long term sustainability and reducing any further costs on the Ferry operation as far as practicable.

## **6. Ticketing Systems**

- 6.1 The existing Corran Ferry ticketing equipment was introduced a decade ago. While not smart technology enabled, it allows the main ticketing function to be undertaken whereby pursers can either collect fares by cash or via card payment.
- 6.2 The software which supports the existing ticket machines is however run on Windows XP and Microsoft has indicated that they will no longer be supporting this version of Windows, i.e. no new update patches to cope with new viruses etc. This results in the existing ticketing system being vulnerable.
- 6.3 The long-term solution will require the purchase of a new ticketing system to support the Corran Ferry. While a similar system to that currently operating could potentially be found, the opportunity exists to work towards a smart ticketing solution which would offer a number of advantages to users of the Corran Ferry as well as The Highland Council.
- 6.4 An example of this would be the level of data that can be collected with the existing system which results in the financial figures being slightly skewed. Books of tickets purchased are recorded in the current financial year, but these might not actually be utilised till the following financial year (in the case of OAP books, potentially 2 years ahead). Smart ticketing would record exactly when books were purchased, but also when they are being used. Accurate accounting figures could therefore be produced.
- 6.5 Further work is being undertaken and there are considerations that need to be factored in such as finding a water proof product for the Corran Ferry. Details of the potential scheme will be brought to the next Community Services Committee.
- 6.6 As the Committee may be aware, Transport Scotland is seeking to pilot smart ticketing initiatives and have identified 2 potential projects in The Highlands, with one of these being the Corran Ferry. The timing of the Transport Scotland proposal could potentially result in important savings for The Highland Council as they would be contributing a significant proportion of the costs for the new equipment.

## **7. Implications**

- 7.1 There are implications regarding State Aid regulations as detailed in the report. In addition, due to one of the proposed cost saving options being explored involving TS and potential operational functions moving to them, consultation will be required with Trade Unions and the affected staff members.
- 7.2 There are currently no legal implications arising from this report, though input from legal services will be required should the service be tendered in the future.
- 7.3 There are no equality implications arising from this report
- 7.4 There are no climate change/ CARBON CLEVER implications arising from this report.

## **8. Recommendations**

The Committee is invited to:

- (i) Note the feedback received on the socio-economic study;
- (ii) Agree that the Corran Ferry operation works towards a break even position through a combination of increased revenue and reduced costs, with any fare alterations from April 2015 presented at next Community Services Committee for approval;
- (iii) Note the discussions ongoing with Calmac into the possibility of sharing resources and reducing the operating costs of the Corran Ferry;
- (iv) Note the discussions which are taking place with Transport Scotland on the long term sustainable future of the Corran Ferry; and
- (v) Agree that an update on smart ticketing be brought to the next Community Services Committee.

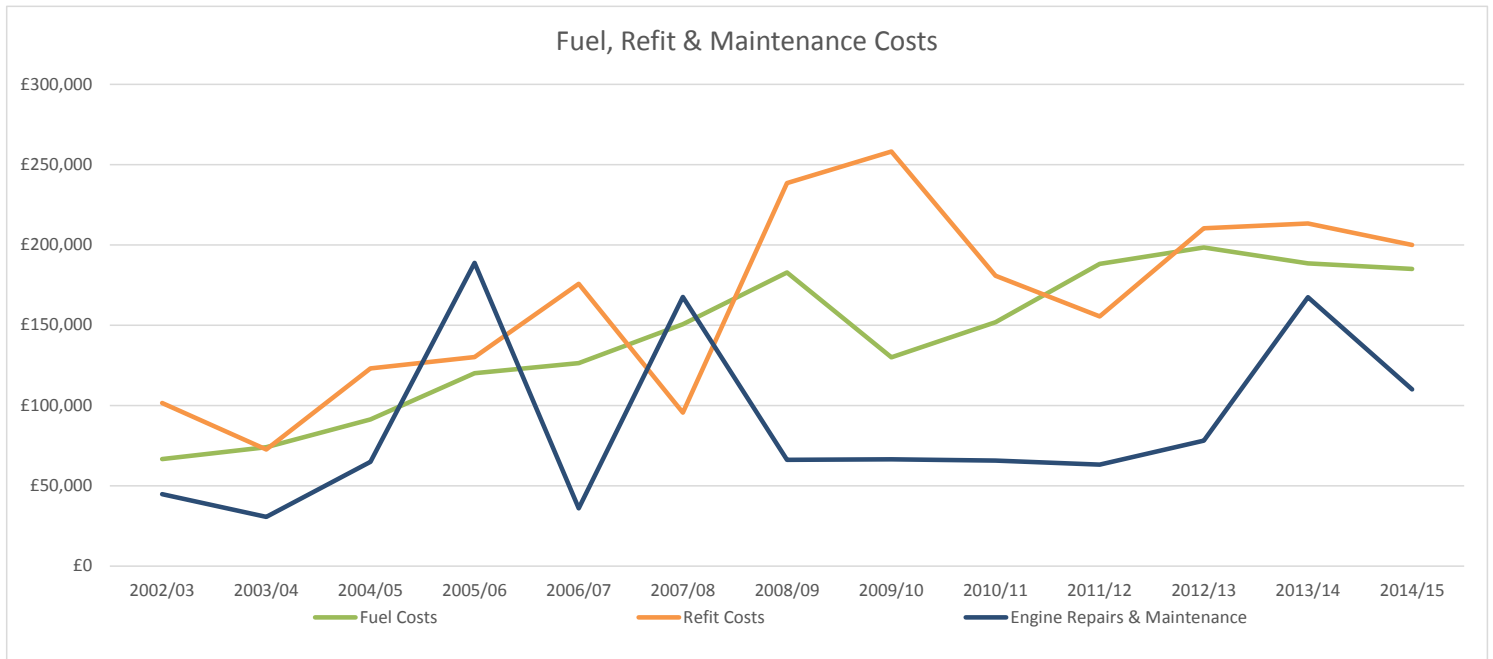
Designation: Director of Community Services

Date: 24<sup>th</sup> October 2014

Author: D. McKechnie, Integrated Transport Manager

Background Papers: Appendices A & B – Cost comparisons

## Appendix A – Corran Ferry Operational Costs



## Appendix B - Historical Expenditure Versus Income

