

**The Highland Council**  
**Community Services Committee**  
**5 February 2015**

Agenda Item	<b>14</b>
Report No	<b>COM 11/15</b>

**Corran Ferry**

**Report by Director of Community Services**

**Summary**

Further to the report COM 35/14 to Community Services on 6 November 2014, this report provides an update on the Corran Ferry situation. A 4% per annum increase in fares is recommended in each of the next 3 years based on working towards a break even operating position by 2017/18.

**1. Introduction**

- 1.1 This report provides an update following on from the report COM 35/14 to Community Services on 6 November 2014 and reference should be made to that report for background to this report.
- 1.2 In November the Committee agreed 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 this Committee for approval.
- 1.3 The report provides information on:
  - i. State Aid
  - ii. Discussions with Transport Scotland
  - iii. Running cost analysis to date (2013/14)
  - iv. Provision of a relief vessel
  - v. Ticketing system
  - vi. Projections for expenditure and income
  - vii. Fares
  - viii. Long term strategy
- 1.4 A proposal regarding increased fares is recommended in the light of predicted costs over the next 3 years based on working towards a break even position in 2017/18.

**2. State Aid**

- 2.1 State Aid considerations were discussed at Committee on 6 November 2014.
- 2.2 Highland Council continues to work towards the Corran Ferry operating as a

viable commercial service, i.e. run in such a way that it covers its costs. Doing so reduces the risk that State Aid may be considered, by the European Commission, to exist.

### **3. Discussions with Transport Scotland (TS)**

3.1 Since the November Committee, teleconference meetings have taken place between TS Ferries Unit staff and Council Officers to explore the option for the Scottish Government to take over the ferry. These have identified where further work is required and were wide ranging. The discussion encompassed:

- i. The Council position
- ii. Public consultation and the Socio-Economic study by AECOM
- iii. The Ferries Plan and how that relates to the Council's position
- iv. Analysis of operating costs and income
- v. Relief Vessel ideas
- vi. Ticket collection
- vii. The condition of the vessel and slipways
- viii. Future investment need e.g. new 30 car hybrid ferry – around £12m
- ix. Road Equivalent Tariff (RET) and its implications for ferry users
- x. Potential impact when RET is introduced on the Mull ferries
- xi. State Aid

3.2 These have identified matters to resolve or consider before the Scottish Government will make a decision about running the ferry themselves including the following:

- i. Understanding by the Community of the impact of RET;
- ii. The need to justify the “lifeline” status of the Ardnamurchan peninsula; the AECOM study report plus a covering letter may suffice to satisfy this principle; a copy of the report has been passed to TS;
- iii. Use of the standard TS “Routes and Services Methodology” to identify dependencies on the ferry and therefore the minimum service required;
- iv. A business case for operating the ferry that shows it covering its costs; and
- v. The transfer of all infrastructure to TS – for control of the assets required

3.3 The direct impact of implementing RET for cars and passengers has been modelled based on the standard RET fare structure:

- i. Passengers fares – per crossing = £2 plus 13p per mile = £2.04
- ii. Non Commercial Vehicle fares – per crossing = £5 plus 80p per mile = £5.26
- iii. No discounted fares

Using:

- i. Crossing length = 1/3 mile
- ii. The 2013/14 data for vehicles carried
- iii. Estimated number of vehicle passengers = 0 (no data available)
- iv. No allowance for disabled passengers

3.4 If RET had been implemented in 2014/15 the estimated changes in revenue would be:

<b>Passenger Type</b>	<b>Revenue Change</b>
Single Ticket Purchase	-£230,094
Car Book (30 Tickets)	£418,227
Walking/ Cyclists	£35,546
Passengers	0
Disabled	0
<b>Total</b>	<b>£223,679</b>

The increase in fares would be greater than this value if the number of passenger tickets were known and could be included.

3.5 The increase would not be acceptable to the community that depends on the ferry for lifeline services. It is therefore recommended that the option to transfer the operation of the ferry to Transport Scotland is given no further consideration.

#### **4. Costs to run the Ferry**

4.1 Details of the actual operating costs and income of the ferry operation are contained in **Appendix 1**. This gives information on the main expenditure headings and gives a year on year comparison from 2002/03 to 2013/14.

4.2 Further detail is given on staffing costs in **Appendix 2**. This provides a breakdown on the various components making up the costs, including the costs of other internal and agency staff required to assist in the overall operation of the service, including the slipways and moorings.

4.3 Over recent months we have examined costs and methods, over and above our normal scrutiny. The objective being to ensure that we are keeping costs to a minimum in what is a highly regulated operating environment.

The following aspects were considered:

- i. Fuel costs
- ii. Alternative to dry dock
- iii. Alternative relief vessel arrangements

- 4.4 Fuel prices for the ferry operation were compared with the price achieved through bulk fuel procurement for Council harbours. The prices were found to be comparable and we are therefore content to proceed with current arrangements.
- 4.5 The technique of in-water survey was considered as alternative to steaming to the Clyde and taking the vessels out of the water at annual refit. We examined carefully the relevant Maritime and Coastguard Agency guidance, and found that due to the age of the vessels and the stringency of the requirements there was no alternative but to dry-dock the vessels at refit.
- 4.6 Alternative relief vessel arrangements are discussed in Section 5 of this report.
- 4.7 We will continue to monitor our costs and seek ways to keep these to a minimum.

## **5. Provision of a relief vessel**

- 5.1 Discussions are ongoing with Calmac regarding the use of one of their vessels to provide relief when MV Corran is away on annual refit and also during any periods of breakdown. This would enable the disposal of the MV Maid of Glencoul.
- 5.2 A trial was undertaken using the Calmac vessel MV Loch Alainn on 4 January 2015. Whilst this vessel and other similar vessels e.g. the Loch Bhrusda would have ideal capacity for the route, there would be operational issues at times of high tidal flow due to the type of slipway infrastructure that exists at Corran. The Council's quarter loading vessels have been designed to overcome this. The result of this is that a reduced timetable would have to be operated during the relief period. Calmac have also offered the 12 car capacity Isle of Cumbrae, which would potentially have better operating characteristics on the crossing, but this is likely to lead to capacity issues and queuing.
- 5.3 Calmac have been asked to provide a quotation for the provision of a relief vessel to cover refit periods and breakdowns for the Corran. A verbal update will be provided at Committee.
- 5.4 A separate statement of the costs of running the relief vessel Maid of Glencoul is given in **Appendix 3**. The current operating cost of the relief vessel is £100,000 per year.

## **6. Ticketing System**

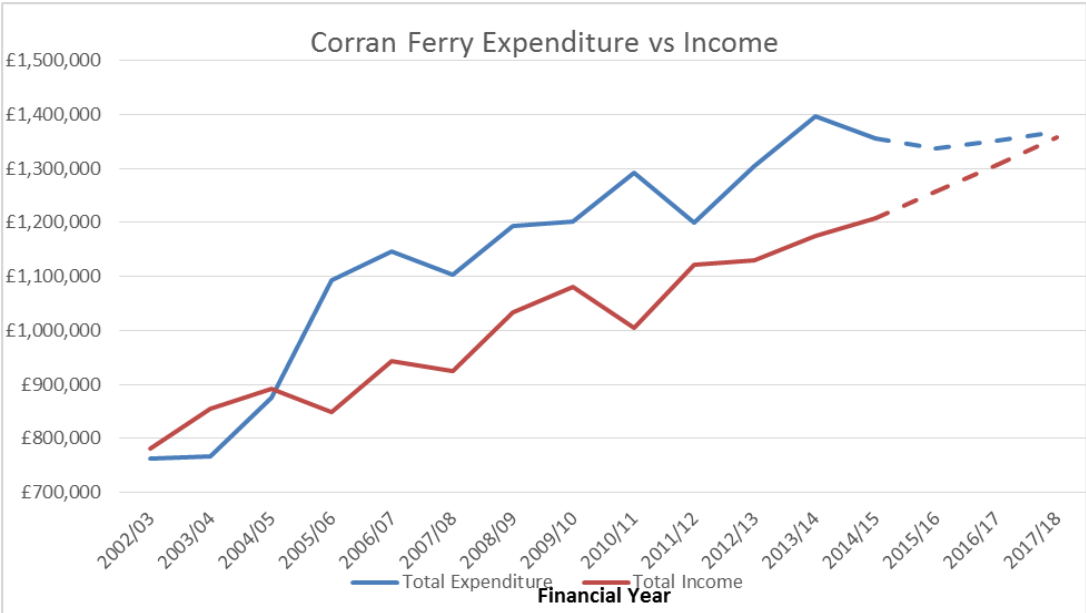
- 6.1 Officers are working with Transport Scotland to procure a replacement ticketing system for the ferry operation. The objectives are to renew the existing ticket machines which have seen long service, to enable the use of smart cards, and to improve data collection.

- 6.2 The use of smart cards will replace the existing discounted books of tickets. The same discount will be achieved for users, however due to the improved data collection enabled by the new technology, the control of revenue will improve.
- 6.3 It intended that this system is in place by summer 2015 and this is dependent on the deliverability of equipment which can withstand the rigours of the operating conditions at Corran.

**7. Projections for expenditure and income**

- 7.1 In the November 2014 report the potential for increasing income to match operating costs was discussed. Further examination of assumptions for projections to 2017/18 has been undertaken.
- 7.2 Expenditure and income projections for the years to 2017/18 have been based on the following assumptions:
  - i. Employee costs increase at 1% pa
  - ii. Fuel costs increase at 5% pa
  - iii. No cost increase for other operating costs

7.3 The graph below depicts past expenditure and income with predicted amounts indicated with dashed lines. The graph illustrates that with a fares increase of 4% per annum from April 2015 the operation should break even in 2017/18.



7.4 This will need to be kept under constant review with any variations or concerns reported immediately to committee for remedial action.

7.5 There is no provision in the capital charges in Appendix 1 for the future replacement of vessels or infrastructure. Decisions regarding these aspects will result in an ongoing increase in operating costs, yet to be determined. Future vessel and infrastructure investment is discussed in Section 9 of this report.

## **8. Fares**

8.1 The analysis in Section 7 of this report indicated that a 4% increase would allow the ferry service operating costs and income to approach break even by 2017/18.

8.2 Current fares and fares for 2015/16 are shown in the table in **Appendix 4**. As an illustration the single car fare for 2015/16 would be £8.20, an increase of 30p per journey. With the discounted book of tickets, which the majority of users purchase, the single car fare becomes £2.40, an increase of 8p per journey.

## **9. Long Term Strategy**

9.1 In order to sustain the transport link at the Corran narrows, future investment will be required. Likely options to be considered are:

- i. a replacement vessel of the same quarter loading configuration;
- ii. a replacement vessel with straight through roll on roll off configuration (similar to Calmac-type vessels); or
- iii. a form of fixed infrastructure

9.2 Replacing the oldest vessel, Maid of Glencoul, with a vessel of quarter loading configuration would perpetuate the current unique system of vessels and slipways at Corran. It is also likely that investment will be required to renew the Ardgour slipway in the medium term.

9.3 A replacement vessel with straight through roll on roll off configuration is likely to require the construction of alignment structures at each slipway and steepening of the gradients of the slipways to ensure optimal operation. This would require significant capital investment in addition to the vessel cost. This option would have the advantage of enabling a wider pool of vessels to operate on this crossing and make vessel replacement more straightforward.

9.4 Moving to a form of fixed infrastructure such as a tunnel or a bridge would require significant capital investment. The length of approaches required to link with the roads on either side and to gain the required height of a bridge or reach the depth of a tunnel would be considerable.

9.5 Substantial further work, including consultation with the affected communities, would be required to assess the feasibility and affordability for future transport options at Corran.

## 10. Implications

- 10.1 The proposed 4% increase in fares will assist in reducing the operating deficit of this ferry service.
- 10.2 There are currently no legal implications arising from this report.
- 10.3 There are no equalities or Gaelic implications arising from this report.
- 10.4 Rural implications have been addressed in the previous related reports COM 35/14 and COM 08/14.
- 10.5 There are no climate change/ Carbon Clever implications arising from this report.

## 11. Recommendation

Members are invited to:

- i. **agree** that the option to transfer the operation of the ferry to Transport Scotland is given no further consideration;
- ii. **approve** a 4% per annum increase in Corran Ferry fares from 1 April 2015;
- iii. **note** that annual increases of 4% are likely to be required for the following two years (16/17 and 17/18);
- iv. **agree** that any requirement to consider increases beyond 4% be brought back to the committee for immediate consideration; and
- v. **note** the information provided on long term strategy.

Designation: Director of Community Services

Date: 26 January 2015

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Background: Report COM 35/14 to Community Services Committee on 6 Nov '14

## APPENDIX 1

### LOCHABER CORRAN FERRY ANALYSIS

2002/03 to 2013/14 Actual Income & Expenditure														
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14		
									£	£	£	£		
<b>Expenditure</b>														
Employee Costs	395,977	430,158	407,769	470,003	540,653	523,855	555,535	596,643	748,442	668,055	692,226	675,217		
Property Costs	8,706	9,309	11,578	11,885	15,157	17,383	19,546	16,702	25,310	22,538	26,490	27,231		
Fuel Costs	66,652	73,971	91,312	120,078	126,376	150,529	182,836	129,964	151,860	188,236	198,368	188,534		
Transport Costs	10,320	14,951	15,482	18,916	21,133	19,760	18,807	18,795	12,907	4,230	9,891	7,576		
Insurance	60,391	74,931	90,486	92,551	95,864	73,677	77,280	68,509	70,732	73,952	62,475	64,614		
Refit Costs	101,483	72,632	123,041	130,172	175,770	95,508	238,489	258,187	180,855	155,455	210,339	213,396		
Engine Repairs & Maintenance	44,780	30,601	64,972	188,762	35,953	167,585	66,129	66,445	65,672	63,207	78,071	167,382		
Other Costs	74,100	61,039	70,390	61,537	135,176	54,240	34,984	46,509	36,711	23,128	26,129	52,666		
	<b>762,409</b>	<b>767,592</b>	<b>875,030</b>	<b>1,093,904</b>	<b>1,146,082</b>	<b>1,102,537</b>	<b>1,193,606</b>	<b>1,201,754</b>	<b>1,292,489</b>	<b>1,198,801</b>	<b>1,303,989</b>	<b>1,396,616</b>		
<b>Income</b>														
Ferry Dues	(774,558)	(838,527)	(872,191)	(840,776)	(886,546)	(893,331)	(973,327)	(1,050,597)	(976,086)	(1,089,688)	(1,096,453)	(1,141,596)		
Other	(6,729)	(16,277)	(20,437)	(7,708)	(56,022)	(31,172)	(60,977)	(30,038)	(28,923)	(32,530)	(34,191)	(33,346)		
	<b>(781,287)</b>	<b>(854,804)</b>	<b>(892,628)</b>	<b>(848,484)</b>	<b>(942,568)</b>	<b>(924,503)</b>	<b>(1,034,304)</b>	<b>(1,080,635)</b>	<b>(1,005,009)</b>	<b>(1,122,218)</b>	<b>(1,130,644)</b>	<b>(1,174,942)</b>		
<b>(Surplus)/Deficit</b>	<b>(18,878)</b>	<b>(87,212)</b>	<b>(17,598)</b>	<b>245,420</b>	<b>203,514</b>	<b>178,034</b>	<b>159,302</b>	<b>121,119</b>	<b>287,480</b>	<b>76,583</b>	<b>173,345</b>	<b>221,674</b>		
Capital Charges	267,982	175,993	182,172	167,883	159,000	74,826	65,683	64,000	62,000	60,000	58,000	56,000		
Loss after Charges	249,104	88,781	164,574	413,303	362,514	252,860	224,985	185,119	349,480	136,583	231,345	277,674		



## APPENDIX 2

### Staffing Cost Analysis

The figure included the analyses previously provided for staff costs was £675,217. This is broken down as follows:

<b>Description</b>	<b>Amount</b>
Basic pay, NI and Superannuation*	£585,019
Overtime for both crews	£39,875
Agency staff	£7,533
Internal charges – Diving Unit	£39,253
Internal charges – RCW & Lighting	£2,667
Other costs	£870
<b>Total</b>	<b>£675,217</b>

Note:

- \* Basic pay includes allowances for shift working and standard overtime in a composite rate of pay. The amount also includes Employers National Insurance and Superannuation amounts.

## APPENDIX 3

### Maid of Glencoul Cost Analysis

<b>Description</b>	<b>Amount</b>
Refit – average of invoices over ten year period.	£74,680
Overtime and accommodation average costs associated with refits	£5,000
Fuel costs based on current price and over a three week period	£4,579
Annual Overtime based on planned layup checks	£2,250
Annual Mooring hawser replacement - (rope only)	£1,200
Maintenance – oil changes and filters	£500
Miscellaneous items such as Crown Estate lease	£1,265
<b>Total</b>	<b>£89,474</b>

These costs vary from year to year and a conservative figure of **£100,000** should be used.

## APPENDIX 4

### Comparison of Fares 2014/15 and 2015/16

Private / Light Goods Vehicles:-

	2014/15	2015/16
Car, Goods vehicle up to 3500kg GVW, Land Rover	£7.90	£8.20
Motorhome / Caravanette	£7.90	£8.20
Minibus up to 16 seats	£7.90	£8.20
Pedal Cycle	Free	Free
Motor Cycle	£2.40	£2.50
Motor Cycle and Sidecar	£7.90	£8.20
Trailer	£7.90	£8.20
Caravan	£10.60	£11.00
Registered Disabled Driver	Free	Free
Book of 30 tickets (valid for 1 year) – vehicle specific (private owned car or small van & registration)	£69.50	£72.00
Lochaber OAP (valid for 2 years) – purchased at service point Book of 20 tickets.	£46.30	£48.00

Vehicles Over 3500kg GVW (including VAT where applicable):-

Van/Lorry under 7.5t GVM, Tractor/Excavator, HGV drawbar trailer	£12.50	£13.00
HGV 2 axle/large van (both over 7.5t GVW)	£18.40	£19.10
HGV 3 axle	£23.80	£24.80
HGV 4 axle	£29.60	£30.80
HGV 5/6 axle	£43.70	£45.50
Bus/Coach (17 to 35 seats) – VAT zero rated	£15.30	£15.90
Bus/Coach (36 seats & over) –VAT zero rated	£24.50	£25.50
Other vehicles/loads ferried by arrangement (fare on application) – contact Ferry Foreman	£500	£520

Book of 30 tickets – issued in name of firm/company including VAT for the above – Valid 1 year	£159.00	£165.00
Book of 30 tickets – issued in name of firm/company excluding VAT (Buses/Coaches) – Valid 1 year	£132.50	£137.50

Lorry/Van (under 7.5t)	2 tickets
Tractor/Excavator/Drawbar Trailer	2 tickets
HGV 2 axle /large van (over 7.5t GVW)	3 tickets
HGV 3 axle	4 tickets
HGV 4 axle	5 tickets
HGV 5/6 axle	7 tickets
Bus/Coach (17 to 35 seats)	3 tickets
Bus/Coach (36 seats & over)	5 tickets