



OFFICIAL REPORT
AITHISG OIFIGEIL

Net Zero, Energy and Transport Committee

Tuesday 28 February 2023

Session 6



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NET ZERO, ENERGY AND TRANSPORT COMMITTEE
7th Meeting 2023, Session 6

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Fiona Hyslop (Linlithgow) (SNP)

COMMITTEE MEMBERS

*Jackie Dunbar (Aberdeen Donside) (SNP)

*Liam Kerr (North East Scotland) (Con)

*Monica Lennon (Central Scotland) (Lab)

*Ash Regan (Edinburgh Eastern) (SNP)

*Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

James Anderson (Caledonian Maritime Assets Ltd)

Jenny Gilruth (Minister for Transport)

Kevin Hobbs (Caledonian Maritime Assets Ltd)

Laurence Kenney (Transport Scotland)

Michael Matheson (Cabinet Secretary for Net Zero, Energy and Transport)

Gary McIntyre (Transport Scotland)

Morag McNeill (Caledonian Maritime Assets Ltd)

Ramsay Muirhead (Caledonian Maritime Assets Ltd)

Chris Wilcock (Transport Scotland)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Net Zero, Energy and Transport Committee

Tuesday 28 February 2023

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Edward Mountain): Good morning, and welcome to the seventh meeting in 2023 of the Net Zero, Energy and Transport Committee.

Agenda item 1 is consideration of whether to take agenda item 7 in private. Under agenda item 7, the committee will consider the evidence that it has heard as part of our inquiry into a modern and sustainable ferry service for Scotland. I remind the committee that, at our previous meeting, the consideration of evidence, which we agreed to take in private, was deferred. We will consider that evidence today. Do members agree to take agenda item 7 in private?

Members *indicated agreement.*

Subordinate Legislation

Renewables Obligation (Scotland) Amendment Order 2023 [Draft]

The Convener: Under agenda item 2, the committee will consider a draft statutory instrument. I welcome the Cabinet Secretary for Net Zero, Energy and Transport, Michael Matheson. Thank you for joining us today. I also welcome, from the Scottish Government, Aedan MacRae, energy policy officer, and Robert Martin, team leader, electricity security.

The instrument has been laid under the affirmative procedure, which means that the Parliament must approve it before it comes into force. Following this evidence session, the committee will be invited, under the next agenda item, to consider a motion to approve the instrument. I remind everyone that the officials can speak under this agenda item 2, but not under the next agenda item.

I invite the cabinet secretary to make a short opening statement.

The Cabinet Secretary for Net Zero, Energy and Transport (Michael Matheson): Thank you, convener, and good morning.

The draft order under consideration is a minor amendment to the Renewables Obligation (Scotland) Order 2009. Before I move on to the amendment, it might be helpful to provide some background information on the scheme.

The renewables obligation scheme was introduced in 2002 to support renewable electricity generation projects. Equivalent schemes are in place in England and Wales and Northern Ireland, and are managed under separate legislation. All three United Kingdom schemes are administered by the Office of Gas and Electricity Markets. Throughout its existence, the Scottish obligations scheme has remained largely aligned with the England and Wales scheme.

The scheme closed to new generation capacity across the UK in 2017, but it will remain operational until 2037. Some 565 existing generators are accredited under it. That accounts for 8.8GW of renewables capacity in Scotland.

The obligation requires electricity suppliers to source a percentage of the electricity that they supply from renewable sources. Accredited renewable generators are awarded certificates according to their output per megawatt hour. They are then sold to suppliers. That incentivises renewable generation by providing projects with revenue in addition to the wholesale energy price.

Electricity suppliers fulfil their obligation by providing the required number of certificates to Ofgem in proportion to the amount of electricity that they have sold. Alternatively, they can make a fixed payment into a buy-out fund at a higher price than procuring certificates typically requires. That fund is then recycled back to suppliers that provided certificates to Ofgem. However, when some suppliers fail to meet their obligations, a shortfall in the fund is created, which reduces the value of any recycled payments. A mutualisation mechanism exists within the scheme to prevent excessive shortfalls. If the shortfall exceeds a certain threshold, existing suppliers are required to pay the unmet obligations of suppliers that did not meet their obligations. In each of the past five years, mutualisation has been triggered due to an increasing number of suppliers defaulting on their obligations.

The amendment order under consideration will alter how the mutualisation threshold is determined under article 48 of the Renewables Obligation (Scotland) Order 2009. The mutualisation threshold has failed to keep pace with the growth in the scheme and proportionality. It is now considerably smaller than it was when it was first introduced.

The aim of the amendment is to better protect customers by restoring the balance of risk between generators and suppliers. As the cost of the scheme to suppliers is passed on to consumers in their energy bills, any increased costs associated with mutualisation are also passed on.

The amendment will alter the mutualisation threshold for Scotland from a fixed value of £1.54 million to 0.1 per cent of the forecast costs of the scheme across the UK. It will also restore alignment with the scheme in England and Wales regarding mutualisation as the UK Government made a parallel amendment in 2021 to move to a variable level of scheme costs. Critically, the amendment will ensure that suppliers and, in turn, their customers are not more likely to face the costs of mutualisation in Scotland than they are in England and Wales.

Finally, a further provision is included in the proposed Scottish statutory instrument, allowing Ofgem to publish the mutualisation threshold for the 2023-24 obligation period as soon as reasonably practicable after 1 April. Ordinarily, Ofgem must publish the threshold before the new obligation period starts but, given that the SSI will not come into force until 31 March, it is allowed to publish the threshold later than that.

For the reasons that I have set out, I believe that the proposed amendment is necessary and proportionate, and I am more than happy to

answer any questions before we move on to the debate.

The Convener: Thank you, cabinet secretary. I have a quick question before I open up to questions from members. You said that the need for the amendment has come about because of suppliers defaulting. Could you explain how that happens and what sort of level it is at?

Michael Matheson: There are broadly three reasons for companies defaulting. Alongside greater volatility, greater competition in the marketplace results in suppliers dropping out of the market. We have discussed that at committee previously. The proportionate size of the mutualisation level has also failed to keep pace with the scale of the way in which the industry has developed. There are also aspects around the way in which companies pay into the scheme. For example, as it stands, some of the default comes about because the companies pay only on an annual basis, and that is sometimes after the end of the financial year. Ofgem is looking to move that payment to a quarterly basis where the money is ring-fenced during the year and, if the company goes out of business at the end of the year, that money can be recovered.

A variety of factors therefore result in companies dropping out of the marketplace and that then contributes to the overall cost of the mutualisation process and the defaulting on mutualisation, and that is why, given the volatility and greater competition of the past five years, we have seen a significant increase in the need for mutualisation to be exercised.

The Convener: My slight concern about what you have just said is that those companies that are doing everything correctly are picking up the tab for those people who have defaulted. I am just trying to get my brain around whether that is right. Are you comfortable that it is right that those companies that abide by the scheme and do everything that they should do pick up the can for those that do not?

Michael Matheson: The scheme was designed on that basis. However, the much more deep-rooted issue—the committee has covered it previously—is the way in which companies, particularly suppliers, have been able to enter into the market without the necessary financial protections in place, and how that led to all the problems that we have had with higher costs and energy prices during the past 18 months in particular.

Ofgem is working on how it can put further protections in place to reduce the risk of companies falling out of the market so quickly and on greater financial protections for them because, in the end, the consumer ends up picking up all

the associated costs. The threshold will help to make sure that the mutualisation process operates more fairly, which means that those who meet their obligations are not unfairly penalised because of other operators who do not meet their obligations.

The Convener: There do not seem to be any further questions. You are getting an easy ride, cabinet secretary.

Michael Matheson: That makes a change.

The Convener: I would not want to set a precedent.

We move on now to item 3, which is formal consideration of the motion.

Motion moved,

That the Net Zero, Energy and Transport Committee recommends that the Renewables Obligation (Scotland) Amendment Order 2023 [draft] be approved.—[*Michael Matheson*]

Motion agreed to.

The Convener: The committee will therefore report the outcome of the instrument in due course. I invite members to delegate the authority to me as convener to finalise the report for publication. Are members happy to do that?

Members indicated agreement.

The Convener: Thank you, cabinet secretary and your officials who attended but were not put under any pressure.

I now suspend the meeting so that we can prepare for our next item.

09:11

Meeting suspended.

09:14

On resuming—

Ferry Services Inquiry

The Convener: Welcome back. Our next agenda item is an evidence session as part of our inquiry into a modern and sustainable ferry service for Scotland. I refer members to the papers for this item, which is the 11th evidence session in our inquiry into Scotland's ferry services.

Our first panel today is made up of representatives from Caledonian Maritime Assets Ltd, which is a company owned by the Scottish Government and is the asset owner of some of Scotland's ports and vessels. On behalf of the committee, I am pleased to welcome from CMAL: Morag McNeill, chair; Kevin Hobbs, the chief executive officer; Jim Anderson, director of vessels; and Ramsay Muirhead, director of port infrastructure and planning. I thank them for accepting our invitation. We are very pleased to have them here.

I believe Kevin Hobbs would like to make a brief opening statement.

Kevin Hobbs (Caledonian Maritime Assets Ltd): Morag McNeill will make the statement.

Morag McNeill (Caledonian Maritime Assets Ltd): I thank the committee for inviting us to give evidence. I have been a non-executive director of CMAL for almost nine years and am currently chair of the CMAL board. I am a lawyer by profession and spent my career specialising in corporate law as a partner in one of Scotland's largest law firms. I spent the last seven years of my career as general counsel with Forth Ports. I recently stepped down as vice chair of Aberdeen Harbour Board, after serving on it for nine years.

Three of CMAL's executive directors are with me today. They all have significant experience in their specialist professional fields. Kevin Hobbs, the chief executive, has been with CMAL for seven years and has a total of 35 years of experience in shipping and the ports industry. Ramsay Muirhead, our director of port infrastructure and planning, has been with CMAL for 14 years and has 26 years of experience in civil engineering. Jim Anderson is our director of vessels. He has 41 years of experience of shipbuilding and vessel design and has spent the past 14 years at CMAL.

CMAL has 47 full-time staff. Although we are responsible for the asset base that supports the northern isles and the Clyde and Hebrides services, we work alongside internationally recognised naval architects and civil engineering, building and property consultants. We engage those consultants so that they can complement our professional staff and because they have the

experience to provide first-class solutions by working alongside the CMAL team.

As a business owned by Scottish ministers, CMAL is committed to achieving net zero by 2045. Along with the wider industry, we are on a journey to achieve net zero throughout our asset portfolio. We are adopting best practice in both vessel design and our port infrastructure. The shipping and port industry does not yet have all the answers to achieving net zero, but CMAL is taking significant strides in reducing carbon emissions and particulates on vessels and in reducing the carbon footprint of our ports. Team members will provide as much detail as we can about our journey to net zero.

We are involved in a number of projects and groups, both internationally and within Scotland, looking at future fuels and carbon reduction. The committee has also heard from members of councils about the close and co-operative working relationships that we have with them.

Our intention today is to look forward and to show you why we are confident that we can achieve net zero within the significant capital that is provided by the Scottish Government, which now stands at around £700 million for the five-year period from 2021-22 to 2025-26.

A significant number of witnesses have been called to give evidence to this inquiry and a number of incorrect statements have been made. We wish to correct those today, for the record. The CMAL team includes experts in the appropriate disciplines and has all the skills and competencies required within the business to support the existing and future ports and vessels. Our senior professionals all worked in the private sector for many years prior to joining CMAL and bring vast experience to the business and to Scotland in support of the Clyde and Hebrides and northern isles networks. We are neither a quango nor a group of amateurs.

During this inquiry, a small number of witnesses have chosen to oversimplify the complexity of the decision-making process without, in our view, having the necessary knowledge or experience to do so. We work closely with the operators of the Clyde and Hebrides and northern isles services and with Transport Scotland regarding future requirements for vessels and for port infrastructure. We also consult widely with stakeholders, including ferry users.

Every proposal for a new vessel commences with a statement of requirements from the operators, which forms the overarching basis of the vessel's design. That applies equally to our port developments. The experts in both areas are here to talk through those processes in more detail.

In that regard, we are aware that it has been stated that it was the choice of CMAL to build dual fuel vessels. That is not correct. CalMac Ferries Ltd produced a statement of requirements that explicitly requested dual fuel vessels that were capable of using marine gas, oil and liquid natural gas. At that time, the project was known as "Super ECO 1000". There were discussions about LNG, which, as committee members will be aware, is a transition fuel, but the operator maintained that such vessels were an integral part of decarbonisation.

Finally, I extend an open invitation to committee members to visit our offices in Port Glasgow so that they can see for themselves the work that we do and have the opportunity to meet the wider CMAL team. I am very proud to say that several members of our team joined us as graduates from Scottish universities, because we believe in growing our own talent.

I thank the committee, again, for allowing me to make an opening statement. We will do our best to answer all the committee's questions as fully as possible. It would be helpful, and I would be extremely grateful, if questions could first be addressed to Kevin Hobbs, who will then hand over to the appropriate member of the team to answer as fully as they can.

The Convener: Thank you very much. I point out to members that, if they want to put a question directly to an individual, it is absolutely appropriate for them to do so. If one of the witnesses wants to come in, they should indicate so with their hand and I will bring them in as best I can. I want the evidence session to be as free flowing as possible, and I want to allow members to ask questions of the people who they think are most appropriate to answer them. I am not overriding Morag McNeill; I am just giving committee members some guidance.

If I start wagging my pen at you—which is a Christine Grahame trick—it means that I want you to try to keep your answers a little shorter, on the basis that we have quite a lot of questions to ask. My pen has never flown out of my fingers when I have been wagging it before, but that will be my indication rather than telling people to stop talking, which I do not think is helpful.

The first questions come from the deputy convener, Fiona Hyslop.

Fiona Hyslop (Linlithgow) (SNP): I thank the witnesses for joining us this morning. Our inquiry is future facing and will inform the islands connectivity plan that is due. What role did CMAL play in project Neptune? Can you explore the issues that affected CMAL in relation to that project?

Kevin Hobbs: I will take that question, if that is okay.

We were involved in project Neptune. The position was described quite adequately last week by Robbie Drummond and Stuart Garrett. We were involved from the outset. On a number of occasions, we met Transport Scotland, Serco and CalMac to discuss project Neptune's scope. We also had a number of one-on-one meetings with Ernst & Young, company to company, and we came back together at the end of the process to get some output and sense checking from it in relation to whether the results that had been produced made sense.

Obviously, there was a wide range of options. We see it as an optioneering paper rather than something that is very defined. The committee will be aware that there were 11 different options, some of which have already been discounted by the Scottish Government.

Fiona Hyslop: I want to explore what might happen. I do not want to put you in a difficult position, but it would be helpful for the committee to understand what the benefits and disbenefits would be if there was a merger between CMAL and CalMac Ferries. That would help us to understand some of the issues with that relationship and what a future relationship might look like.

Kevin Hobbs: There are many models. Many ferry companies out there are fully integrated. CMAL was born of European legislation, and one question about merging the companies revolves around independence. What seems to come with independence is a move back into Europe; you could re-merge the companies, but then you might have to tear them apart again.

We are therefore quite agnostic about how this works. What we really want are the best results that we can get for Scotland plc in the ferry renewal programme and, indeed, the port renewal programme if we are looking at this from an asset base point of view.

Fiona Hyslop: Can I explore what you mean by independence? Independence from whom to deliver what?

Kevin Hobbs: I was talking about Scottish independence from the United Kingdom.

Fiona Hyslop: Okay.

Kevin Hobbs: At the end of the day, there are pros and cons to merging the companies. We already work closely together; some people have said that we do not, but there is barely a day goes by that we do not work with the Clyde and Hebrides and northern isles ferry services operators. It is therefore totally incorrect to say, as some people have, that we are disjointed. Indeed,

one could even say that such comments are mischief making.

We do not have a problem with merging. However, having worked for many years in integrated ferry companies, I know that what tends to happen if there is a crisis is that everybody gets sucked into the middle to deal with it. One of the unique things about CMAL is that we do not get involved in day-to-day operations, which means that we can really concentrate 100 per cent on strategy, the asset base and such like. We therefore see our current position as being quite positive.

Fiona Hyslop: Just to develop your point about the strategic focus, I know that Transport Scotland is also in the mix, which has resulted in the triangle that, as people will know from the evidence that we have taken, can be seen as being overcomplicated. If CMAL and CalMac were to come together, would that put greater onus on Transport Scotland to have the expertise with regard to accountability? How does that relationship work? Would Transport Scotland's remoteness potentially be a problem if there were to be a merger?

Kevin Hobbs: I do not see it as being remote at the moment, and it would certainly not be so in the future. It is the policy maker and the funder; we are the owners of the assets—that is, the ports and vessels; and then there are the two operators under public contract, CalMac and Serco NorthLink. I really do not see that as being that complicated. People can make it complicated, but it is really quite straightforward.

Fiona Hyslop: Going back to your original reference to independence, if I have understood it correctly, I would just point out that the Scottish Government's view is to try to stay aligned as much as possible with European Union regulations. You are therefore indicating that one eye should be on aligning and keeping pace with EU regulations. I was here when the companies were set up as they currently are, so I know that that was a concern—although it was disputed at the time. Are you suggesting that that is the bit that needs to be weighed up in some of this?

Kevin Hobbs: Absolutely. Do not get me wrong—is what we have today absolutely perfect? No. Can improvements be made? Indeed, have improvements been made? The answer to that is yes.

Fiona Hyslop: But what improvements can be made? That is what I am trying to tease out.

Kevin Hobbs: Sometimes we might not be as joined up as we ought to be. At this point, I will pass over to Jim Anderson to briefly explain how we go about building vessels.

James Anderson (Caledonian Maritime Assets Ltd): I can do that. As I hope most of the committee will be aware, we have a number of new vessel projects, and I invite the committee to look at our website, because it sets out the big range that we are working on.

Since becoming director of vessels in 2016, I have made sure that there is better governance around everything done beforehand. We have set up working groups that meet regularly—indeed, daily—to discuss all aspects of the vessels, which is what I am mainly talking about. Transport Scotland is part of the working group that I chair on policy and strategy, and we have CalMac representatives looking at forecast demands, the types of vessels that we need and so on.

However, the big thing that I have put in place is involving the specialists who operate the ships in these projects. We are speaking to the masters, the retail department, the chief engineers and so on to ensure that everyone knows what is going on. This is not about having a lot of people sitting in offices and delivering ships to the people who have to crew them.

This is a team, and it is a really good team effort. It starts by asking what we need to do and what we need to look to in the future for 2035 and beyond, and everyone sits together. The governance and the level of assurance that we now have for the projects is at a different level from anything that we have had previously.

09:30

Fiona Hyslop: Finally, how is CMAL preparing for the end of the current Clyde and Hebrides ferry service contract in October 2024, which is only 18 months away?

Kevin Hobbs: You are 100 per cent correct in saying that it is 18 months away. We do not own that contract, as such, but we have a harbour operating agreement. Perhaps Ramsay Muirhead could explain what that agreement looks like and what we need to do in preparation.

Ramsay Muirhead (Caledonian Maritime Assets Ltd): The harbour operating agreement is a contract directly from us to CalMac Ferries, as the harbour operator. It runs back to back with the CHFS contract. In preparation for the end of that contract and the presumed next one—CHFS3, as it will be—we are looking at the harbour operating agreement.

We work with CalMac literally on a daily basis to look at how the harbour operating agreement can be improved, from both sides. We have already started reviewing that agreement for what will presumably be another tender coming. I think that it works very well at the moment. We have CalMac

staff who operate the ports on behalf of CMAL across our 26 ports on the network.

The Convener: Kevin, I want to go back to the answer that you gave, in which you said that you basically feel that the system works fairly well. You will have read the “Construction and procurement of ferry vessels in Scotland” report. Did you agree with that, in principle?

Kevin Hobbs: Yes.

The Convener: I am confused by your answer. In that report, the Rural Economy and Connectivity Committee said that it was a “cluttered decision-making” process that “lacks transparency”; that there had been “varying degrees of failure”; that CMAL and the Scottish Government

“failed to discharge their respective responsibilities ... effectively”;

and that the experience of the contracts for 801 and 802 “exposed serious failures” in the tripartite arrangement, which therefore needs

“a root and branch overhaul”.

Basically, the REC Committee said that CMAL failed but, on the way forward, you are saying, “It’s fine. There’s not a problem. Let’s just crack on.” Is that what you are saying? If it is, I am seriously concerned for ferry procurement in Scotland.

Kevin Hobbs: What we are actually saying is that, as Jim and Ramsay have described, we are improving things day by day and we will continue to do so. Looking back in history, it was not perfect. We look at any report that comes out, lessons are learned and we improve. That is what any business ought to do.

The Convener: I understand that, but creeping forward is not what the REC Committee recommended. What this committee is charged with doing is trying to find a way to take things forward. The final part of the paragraph that I have just quoted, as I am sure that you know—I know the report fairly well—says that there should be

“scope to streamline and simplify decision-making structures by merging or abolishing certain of them.”

That means that, without putting too fine a point on it, according to the REC Committee, CMAL should no longer exist. Would you challenge that?

Kevin Hobbs: Yes.

The Convener: Do you challenge it only on the basis that you are making creeping changes?

Kevin Hobbs: We are not making creeping changes. Those are your words, not mine.

The Convener: Are you making “root and branch” changes? “Root and branch” suggests a massive change.

Kevin Hobbs: Obviously, massive change has not happened, but project Neptune might look at that.

The Convener: Okay. I will come back to that.

James Anderson: We read a lot about this in the press, it is on the news and the committee and the whole country are aware of it. That is all centred around 801 and 802—it really is. I am still not sure that everybody has all the facts on 801 and 802 and why there are problems. CMAL has been labelled as being at the root of all that and that is absolutely not the case.

CMAL has a history of delivering vessels; we have done it since I have been in the company, which is since 2009. We are now moving forward with another four vessels—and another seven—but, for whatever reason, we are tarred with the 801 and 802 brush, which means that people think that something has to change because of the problems at Ferguson’s shipyard. Apart from the chair, I am the only person who has been ever present at CMAL, and I can tell this committee and others right now that that is not the case.

The Convener: Jim, I understand why you want to disassociate CMAL from 801 and 802—

James Anderson: Sorry, convener, I am not disassociating us—

The Convener: I did not interrupt you, so please do not interrupt me, because that will not start us off on the right foot.

The RECC report says that

“Transport Scotland and CMAL applied inadequate due diligence in scrutinising and signing off the ... process”

and that “Insufficient due diligence” was undertaken. Those words are all in the report.

We are talking about a project that was due to cost £97 million but which is probably going to end up costing £0.5 billion. Forgive me if I do not understand why the people of Scotland should not find that of due concern, when your organisation was overseeing the contract. Explain to me why they should not.

Morag McNeill: Can I come in here, convener?

The Convener: Yes, Morag—of course.

Morag McNeill: I thought that this meeting—and the committee’s work—was going to be about forward-looking issues, but the point that I would like to make is that the procurement of the current vessels shows that we have made great strides, not creeping changes, in how we procure vessels. I do not think that you could challenge the manner in which the four large vessels have been procured.

The Convener: I totally agree with you. One of the things that the report mentions is transparency. We know that two of the vessels are going to cost £111 million. I would like to know, for example, whether you have addressed the issue of staged payments. Have you addressed all the other points that were made in the RECC report? When we ask for that information, we are told that is commercially sensitive, so we cannot have it. Therefore, it is very difficult for people to scrutinise the process and understand whether there has been change.

Maybe we should leave that issue there, but I would say that looking forward is about learning from history so that you do not repeat the same mistake.

Morag McNeill: I think that we have learned from history and we have not repeated the same mistake. That will be clear not just in relation to the procurement of the large vessels, but when we come on to talk about the small vessel replacement plan, which I hope that we will get on to at some point in this evidence session.

The Convener: That will be up to committee members, Morag.

Morag McNeill: Indeed—I said “hope”, not “expect”.

The Convener: We now move to questions from Mark Ruskell.

Mark Ruskell (Mid Scotland and Fife) (Green): Looking at the future, I am interested to know what role CMAL has played in relation to the development of the islands connectivity plan. It would be good if you could explain exactly what your involvement has been throughout the stages of its development.

Kevin Hobbs: I guess that that question is for me. We have been working very closely with Transport Scotland on the islands connectivity plan. Looking at the overarching requirement to build ferries and replace ageing ports, we have been front and centre of that with Transport Scotland, trying to work out the best way forward for the islands. Whenever we initiate a new project, we do an island impact assessment; we do considerable stakeholder engagement every time we get involved.

Mark Ruskell: Can you explain what that involvement has been with Transport Scotland?

Kevin Hobbs: We are obviously the asset owners so, on almost a daily basis, we look at what needs to happen in terms of replacing the assets, because the assets are front and centre of this. As everybody is aware, there have been a number of issues around the age and replacement of the fleet. It is a question of looking at what we

have to do in the future to get that back on an even keel.

At the moment, the vessels on the northern isles services are about 21 years old, and our desire would be for them to be 15 years old. On the west coast services, the vessels are about 24 and a half years old and, again, we would desire them to be 15 years old. We are looking at climate change issues in relation to ports. Ramsay Muirhead can explain that later on, if members care to ask a question about that.

Broadly, we are the people who sit down with Transport Scotland to consider what needs to happen to make the services for the island communities a lot more resilient than they are today.

Mark Ruskell: Okay—so your involvement with Transport Scotland is primarily about the assets. You would not pass comment on the viability of fixed links, for example, or any other issues that are relevant to connectivity for islands; your activity is just about the ferries and ports.

Kevin Hobbs: Those issues are not for us. We are aware of some of the issues around fixed links—we know that there have been discussions about tunnels, bridges and so on, but those are very long-term ambitions. None of those projects can be turned around really quickly. There is a ferry service, there are ports and, in general, ferries go from A to B very successfully. If there is a desire—as there was a number of years ago—to connect an island using a bridge, as happened with the Skye bridge, there is no problem as far as we are concerned.

The Convener: Liam Kerr has some questions.

Liam Kerr (North East Scotland) (Con): Good morning. Before I come to a substantive question, as the convener asked about procurement, there is an issue that I wondered whether Kevin Hobbs might help me with. I put in a question to the Minister for Transport in January, which was answered somewhat cryptically, and I wondered whether I could get a clear answer from you.

I asked whether there were clauses in the contract with Cemre in Turkey for the two ferries to serve the Islay route that stipulated that Scottish, UK or other European businesses should form part of the supply chain, where possible. Were there any such clauses in the contract?

Kevin Hobbs: No, there were not.

Liam Kerr: Thank you. The substantive question that I have at this stage is about Transport Scotland's consultation on the "Islands Connectivity Plan: Long-Term Plan for Vessels and Ports on the Clyde & Hebrides and Northern Isles networks (2023-2045)", which states:

"We will reduce the average age of the fleet to around 15 years by the end of this decade."

How does CMAL intend to achieve that, particularly given the chair's earlier comment that it is for the operator to dictate the spec?

Kevin Hobbs: What we look at all the time is the age of the fleet and what needs to be replaced. An element of decarbonisation comes into that, too, because, obviously, the old vessels are traditionally propelled. We made some progress in 2013, 2014 and 2016, by having the world's first diesel-electric hybrids.

Broadly, we speak to the operators regularly, and we have a three-year and a 10-year plan—again, you can look at our website if you want to, and I will hand over to Jim Anderson in a moment. Over the course of that 10-year plan, 21 vessels will be replaced in a 10-year period.

At the moment, we only have an agreement for the funding for five years. Those five years are made up of a multiplicity of projects, some of which are ports, some of which relate to the operator and some of which relate to new vessels. To give a broad-brush explanation—Jim can explain in more detail—we need to build six new major vessels in addition to 801 and 802. Currently, there are 11 major vessels, so that is eight new ones out of the 11.

We intend to build 10 replacement small vessels. At the moment, we have 18 small vessels, so we will replace more than half of those. There are three vessels that we do not have in our portfolio at the moment—the Gourock, Dunoon and Kilcreggan vessels—and the intention is to build replacements for them, as well. Two of those are currently owned by David MacBrayne, which is the owner of CalMac, and one of them is chartered in.

We have 32 vessels on the west coast currently, and we intend to replace 21 of them, which is a 60 per cent replacement.

James Anderson: I think that Kevin has covered it—I would probably just be going over the same numbers. We have the plans; we have the four ships that are under construction in the Cemre shipyard in Turkey and the small vessel replacement programme. To repeat what Kevin said, seven vessels are just about finished on the conceptual side and will hopefully be ready to go to procurement in the next financial year. We will follow on with all the other replacement programmes. Therefore, the picture is pretty healthy.

Liam Kerr: Given that, the question begged is simply whether Transport Scotland's statement on its aim to reduce the average age of the fleet to 15 years by the end of the decade will be realised,

particularly given the funding situation that you alluded to, Kevin.

09:45

Kevin Hobbs: We believe that it will be. We are working closely with Transport Scotland and the Scottish Government on the £580 million five-year package. Obviously, five years is not 10 years, but we are already talking about what the following five years might look like—2026-27 to 2031-32. We do not have a commitment to that yet, but the £580 million will start that process very substantially.

As we say, there are four new vessels being built in Turkey already, and we should be out to procurement by mid-year for seven of the 10 small vessel replacements and by the end of the year for the Gourrock, Dunoon and Kilcreggan vessels. All those are heading in the right direction. Provided that the next five-year package of funding comes along and does not fall away, we are confident that we will get below 15 years as an average age for the fleet.

Liam Kerr: Just for completeness, how much is it going to cost? What is the total funding required to achieve what it sounds like you are trying to achieve?

Kevin Hobbs: That is quite difficult to predict at the moment, because of inflation. The last time we looked at it properly in order to predict that was this time last year, and across the northern isles for the ships and the Western Isles for the ships and the ports, we had an overall spend of about £1.4 billion. However, that was premised on a 2 or 3 per cent inflation rate at the time. Therefore, it is absolutely true to say—to be transparent—that, with inflation at 10 per cent, we cannot buy as much as we thought that we were going to buy.

Having said that, the original figure of £580 million was added to late last year by the sum of £115 million to allow for four vessels rather than two to be built in Turkey. Therefore, we have an open dialogue and the Government is listening, which is evidenced by the fact that we have had another £115 million, which has taken us up to £695 million—broadly speaking, £700 million, which has been mentioned before.

Liam Kerr: I understand.

Morag McNeill: It is also fair to say that we continue to look for second-hand tonnage, which is another method of bringing down the age of the fleet.

Liam Kerr: I understand. Thank you very much.

Jackie Dunbar (Aberdeen Donside) (SNP): Good morning. During the inquiry, we have heard concerns from commuters and communities

regarding the reliability and availability of the vessels that currently serve the Clyde and Hebrides routes. Can you briefly explain to me what CMAL is doing in the short term to improve that?

Kevin Hobbs: I will say a couple of words before handing over to Jim Anderson. Basically, we have a number of things going on. We are not responsible for the repair and maintenance and dry docking of the ships. Without getting too technical, in effect, we have a bareboat charter agreement—a fleet agreement—so—

Jackie Dunbar: I am sorry, but what does that mean?

Kevin Hobbs: It basically means that you get the ship—it does not come with the people and we do not pay for the fuel. In effect, it is just the asset. The asset is handed over to the operator. The operator then operates it, putting on crew, fuel, lubricating oil and so on. That is what happens, but we are very aware of the resilience issues and of the fact that we do not have a fleet with an average age of 15 years. As I said earlier, at the moment, the average age is about 24 and a half years, which is not where we would ideally like to be. However, we have a package of funding called upgrades and resilience, which has been agreed with Scottish Government. Jim, you might want to talk about what that looks like annually.

James Anderson: We are currently spending about £8.5 million across the fleet on upgrades and resilience projects, as we call them. That looks at areas of obsolescence on board the ships, whereby we cannot get spare parts and so on. These are all ways of increasing the reliability of the vessels.

I will speak about what we will do in the future and what is happening with the new ships that we are putting in place, which will have a spare working engine on board. Typically, we have two main engines on the ferries, and if we lose a main engine, the ship gets taken out of service. The new vessels will have a diesel-electric propulsion system, so we will have four main engines, one of which will in effect be a standby machine. That means that, in the event that an engine is out of service, a spare engine can be used. That also makes it possible to carry out maintenance on board the ship. Those are all ways that we are looking at of increasing the reliability of the future fleet.

We have also increased the capability of the propulsion system, in its speed of response from ahead to astern. We call that station holding when we talk about propulsion. We are also putting in features such as spare pumps and so on. A lot of work is being done on improving the reliability of the future fleet.

Jackie Dunbar: Is the extra engine that you are speaking about instead of having a relief vessel? Do you have relief vessels?

James Anderson: The intention once we have had the investment in the new ships and the fleet is that there will be ships that can be used as a relief or standby vessel. Obviously, there would need to be a discussion about how that would be costed and funded and so on.

Jackie Dunbar: Do you have a relief vessel now? Do you have something in the short term?

Kevin Hobbs: No, there is no relief vessel. Basically, as new vessels come along—to be frank, there have not been enough major vessels or smaller vessels—there is an opportunity to have a relief vessel, but the strategic and policy decisions around that have been to permanently deploy what could have been a relief vessel on a permanent route.

You will probably know that there have been improvements to services such as the Campbeltown route, the Mallaig to Lochboisdale route and the daily service that was created to go to Barra. That is great for those islands, but every time a new vessel has come along, there have been new routes.

We are saying very clearly to the Scottish Government that, as we get new vessels, we believe that, certainly for the balance of this decade, there needs to be a vessel in hot lay-up. In the summer, and in the winter, with everything deployed, the minute that there is a resilience issue—a breakdown—or a vessel is delayed in dry dock, as things currently stand, you are robbing Peter to pay Paul. On the major vessel side, you basically have to take a vessel away from one of the islands that has two vessels deployed, such as Arran or Mull, to plug the gap.

We are saying very clearly to the Government, “Please have a resilience vessel in future.” Does that need to be there for ever? My answer to that is no. That is not normal ferry practice, but we need to get below an average age of 15 years to enable us to have the confidence that there does not need to be a resilience vessel in the fleet.

Morag McNeill: As Kevin Hobbs said, having a vessel in hot lay-up is absolutely what we are looking for in the short term, but the cost implication of that has to be understood.

The Convener: Thank you for your submission of 21 February on decarbonising Scotland’s ferries on the route to net zero, which was useful. Do you believe that the Scottish Government’s ferry services can be carbon neutral by 2045, particularly in light of the fact that CMAL is purchasing four marine-oil-powered vessels, with an expected lifespan of 30 years, and on the basis

that we heard from Norway that you cannot change fuels midway through a vessel’s life? Norway’s opinion is that if a vessel is built for a particular fuel, that is what you are left with.

James Anderson: The market is not quite there for alternative fuels. We have some figures with us. Almost 99 per cent of ships in operation are on conventional fuels, and 1,349 are on some kind of alternative fuel. The likes of methanol and ammonia, which we hear a lot about, are not yet in the market, although the major engine manufacturers are working towards getting them out into the market in the next few years.

There are lots of other challenges around not just engine technology but the supply of fuel. That is another big aspect. If we are looking at using methanol, ammonia and hydrogen in future, the other challenge is where the fuel is coming from. Added to all of that is the safety and regulatory part, which has not quite been defined. That said, we know what the market is doing, and we are constantly looking at these things and trying to be in a position where we are ready.

The four ships under contract are diesel-electric hybrid systems. They have what we call a DC—or direct current—grid, which allows us to consider future enhancements and advancements in battery technology, makes it easier to connect and lets us look at fuel cells and so on. These devices are all providing DC electricity, so we have put this DC grid in place.

These are all small stepping stones towards the future. At the moment, the market is just not there with regard to ammonia, methanol and hydrogen, but we are directly involved in the issue and have a good understanding of what is happening.

Kevin Hobbs: I just point out that, for the small ferry fleet in Scotland, there is a solution, which is batteries. You just plug the battery in, charge it overnight and use it for propulsion during the day.

The real challenge is the larger vessels, and it is a challenge not just for CMAL and Scotland but for the whole world. Shipping globally is to decarbonise completely by 2050, and the manufacturers of engines and everything else associated with ships are doing a huge amount of work to get to that zero carbon point. If you were to ask us to predict when there might be a solution for the bigger ships, we would say probably in the mid-2030s. The problem, though, is that we just cannot wait. Given that the mid-2030s are 10 years hence, do we want to be running around with ferries with an average age of 35 years? Absolutely not. We have to do something, which is why we are building the four ships in Turkey.

The Convener: Thinking about what you have just said, I am told that the yard that is building 801 and 802 has questioned whether it was

sensible to commission liquefied natural gas vessels. It has been instructed to provide such vessels, because that was the commitment. Was LNG a mistake? Is it a fuel that we should be using in future for our ferries, given that it is difficult to get, comes in a lorry from Kent, I think, and needs special storage? Is it going to be a fuel of the past rather than a fuel of the future?

James Anderson: With regard to the operation of alternative fuels, 923 of the 1,349 vessels that I mentioned use LNG. The 801 and 802 vessels are dual-fuel vessels, which means, obviously, that they can operate on both types. We see LNG as a transition fuel—there is no doubt about that.

The Convener: So will you be commissioning more LNG ships?

Kevin Hobbs: Potentially. The core issue for the ships that serve Islay is to maximise the deadweight—or carrying—capacity. A dual-fuel system requires a lot of pipework and adds an awful lot of weight. It is just pure physics: the heavier the ship, the less cargo you can carry. It was not that we did not want LNG on those ships—although there are some challenges around their size and whether there are LNG engines that can go in them. Notwithstanding that, from the perspective of what we might call more industrial islands, it was absolutely necessary to maximise the ships' deadweight—in other words, their carrying capacity. If you have 100 tonnes' worth of tank and pipes, that is 100 tonnes less cargo you can carry—or two and a half lorries' worth. That is why we did not go for it.

The Convener: Okay. Mark Ruskell has some follow-up questions on that.

10:00

Mark Ruskell: Your point is interesting, Jim. You seem to be saying that CMAL is following a market rather than trying to create and lead a new market in decarbonised technology. It is a bit disappointing to hear that.

Is CMAL committed to the 2030 target, which is a 75 per cent carbon reduction on 1990 levels by 2030? Are all the decisions that have been made on commissioning in perfect alignment with that? If not, you are in effect asking another transport sector—another part of the economy—to pick up the slack on decarbonisation that, for whatever reason, you feel that you are unable to achieve.

Kevin Hobbs: I mentioned 10 small vessels and the Gourrock, Dunoon and Kilcreggan vessels, which are at the smaller end. We have said clearly that those will be battery vessels. We will charge them up with green energy.

We know that, despite what people might say, energy from the grid is not 100 per cent green, but

it is getting there with the roll-out of the ScotWind project et cetera. Eventually, that will be green, but what we are clearly saying at the moment is that we are doing everything that we can to make sure that we decarbonise as quickly as we can. That is not purely about vessels; it is about ports as well, so—

Mark Ruskell: Are you aligned with the 2030 target?

Kevin Hobbs: We are, but we are waiting for the technology to be available for us to actually achieve it. At the moment, in 2023, there is not a solution for the larger vessels that will get us there with that sector of our portfolio.

Mark Ruskell: Okay, but you will be aligned in 2045. Is that what you are saying?

Kevin Hobbs: Yes.

Liam Kerr: I have a brief preliminary question for Kevin Hobbs, because I did not quite understand something that the chair said earlier. In her opening remarks, she said that the operator dictates the specification of the vessels. However, we have a press release from CMAL that says that it is considering a catamaran for a particular route, and the chair said earlier that you are looking at alternative tonnage. What is the reality? Will you explain who dictates what vessels look like and which vessels are ordered?

Kevin Hobbs: It is not really a dictation. It is a collaboration. I think that Stuart Garrett explained it well last week. Every vessel starts with the operator statement of requirements, which gives all the core metrics that are needed to build a future vessel, including its length, its capacity, the speed that it needs to go at and what services are needed on board. As you can imagine, vessels that will operate services to the northern isles, which involve 14-hour overnight journeys, will be completely different from those that operate one-hour journeys to Arran.

That statement is initiated by the operator, and we then sit down and look at it so that we can understand it. Sometimes, we question it. Obviously, if we have a 100m ship and somebody says that they want to put a million cars on it, that will not work. It is a question of sitting down and collaborating with others.

Also, we should not forget the role of Transport Scotland as the policy lead, or the funding of these things. We have no borrowing powers to build ships. I wish that we had such powers, in some ways, because if we did, we could have done a lot more a lot sooner, but we do not. We get voted loans from the Government.

We work very closely with the operator and, through the various iterations of concept design, we will keep them completely up to date. We have

very regular meetings with them. What comes out at the end of that concept design could be a catamaran, a monohull, a fast ship or a slow ship. It is not the case that a single company makes the decision. There is very close tripartite working.

Liam Kerr: I understand—thank you. Sticking with that press release, I note that, later on, it says:

“We will only ever order the vessels best suited to the routes and communities they are intended to serve.”

In previous evidence sessions, the committee heard from various communities that CMAL is procuring vessels and hardware improvements that appear not to be the best, or that do not accord with consultations that have taken place. If that is correct, how come there is a disconnect between CMAL’s position as stated in that press release, for example, and what appears to be the perceived reality?

Kevin Hobbs: That is quite difficult to answer; again, you need to ask those people.

You have heard from various people. I think that there is a confusion between having stakeholder engagement and consultation and getting exactly what you want. We, with the partners—the transport operators and Transport Scotland—have to decide, on balance, whether what is being requested is reasonable. Sometimes we, or Transport Scotland, or the operators, simply have to say no, purely on the basis of value for money—leave alone anything else. If somebody comes along and says, “You have not listened to my comments. I insisted that the new Brodick terminal have gold taps and platinum toilet seats”, that is not reasonable. There is a disconnect because some people will not accept that what they are requesting is not value for money, not reasonable, or, in scientific terms, cannot actually work.

Liam Kerr: There has certainly been a suggestion that some of what has been ordered historically and is likely to be ordered going forward is not best suited to particular routes or particular facilities. It would be interesting to hear your view on that. Can you explain to the committee how you ensure, and will ensure, that whatever is procured, whether we are talking about vessels or harbours, is best suited to the particular routes and communities that it will serve?

Kevin Hobbs: That is what we do already—although people might not like the output.

Maybe you should speak to Ramsay Muirhead about ports; he has not said too much today. If you look at future ports, Ramsay, what does that look like? What do we do in consultation?

Ramsay Muirhead: As was mentioned earlier, we have project working groups, which are made up of CalMac, CMAL and Transport Scotland. We then have reference groups, which include local councils, local ferry committees and key stakeholders. We also go out and have lots of public meetings about our port developments.

I would say that we undertake true consultation—it is not just a communication exercise; we are not just there to tell people things. We have many examples of the feedback that we received going into the design of projects that we are working on. An example is the Port Ellen terminal development. We went out last summer with two preferred options, one of which was slightly ahead of the other. The overwhelming feedback was for another option. We reviewed that option in a lot more detail, and it turns out that it is the better option.

Even things such as boat steps have been looked at. When we were rebuilding the Largs terminal, the feedback from the public consultation that we undertook was that different sizes of vessels need different types of step. We put those in as part of the project, because we had listened to what was being told to us.

James Anderson: With regard to the two new vessels for Islay and the two further ones for Tarbet and Lochmaddy, there has been lots of consultation. In fact, we started consultations in August 2019, when we formally kicked this off. From August 2019 through to March 2022, during that whole period before we even went to contract, lots of excellent work was done through consultation with the communities. The feedback that we have had for those routes that we are serving is that everyone—the communities and the councils—is very satisfied with the ferries that are coming their way.

I have a few other things to note, as we are here at the Net Zero, Energy and Transport Committee. Compared with the vessels that they are replacing, the new vessels will have 30 per cent fewer emissions and at the same time can carry 40 per cent more heavy goods vehicles and 30 per cent more cars. We are doing a lot of work in that respect as well with the new vessels, although we are not quite there yet with all the technologies.

The four new vessels, which will become standard vessels, have been very well received. I ask members to go on to our website to see the level of engagement that we had during the pandemic, when we carried out live webinars from our studies in our houses.

The next engagement is for the small vessel replacement programme. In the second quarter of next year, we will visit all the communities. We are looking at seven vessels and 14 locations. What

we are doing has certainly been very well received.

When we start to look at vessels, we do not have a preconceived idea of what the hull will look like. We look at catamaran hulls and monohulls. We then have to go through the whole evaluation to get to the point at which one will be the most competitive. The work is all carried out.

Morag McNeill: May I come in on that?

The Convener: I am sorry; I could not work out where that voice was coming from.

Morag McNeill: There is an echo in the room.

The Convener: That was quite spooky, but I am now back on track.

Morag McNeill: An islander now sits as a non-executive director on our board. He has had the opportunity to attend some of the public meetings that have been held in relation to the consultation, and he has received very good feedback from people who attended the meetings.

We always look to improve, but I think that we have a good level of engagement. We have had very positive feedback. When I was on Mull for the MV Loch Frisa launch, a number of Mull residents came up to me specifically to say how much they valued the work that CMAL had been doing on Mull, particularly in getting the MV Loch Frisa there as a second vessel.

Jackie Dunbar: In earlier sessions, the committee has heard concerns about vehicle capacity and availability of cabins on the NorthLink Ferries vessels and about the capacity and availability of freight-only vessels. What action is being taken to address those concerns?

Kevin Hobbs: We are aware that there is pressure in that regard. The northern isles have certainly been well served with the vessels that they have had to date. However, with the increased economic activity on the islands, especially around renewables and fish landings, capacity has become an issue for the islanders.

As Morag McNeill said, we are also tasked with looking at second-hand vessels. That is not an easy space to be in. You asked about the northern isles. Around six or seven months ago, we put in a formal bid to buy the MV Arrow, which is an exact sister of the MV Helliard and the MV Hildasay. Unfortunately, there was a pre-emption clause in the current charter with the Isle of Man Steam Packet Company, which meant that we could not purchase the vessel. That company purchased it from the owner, which was a private equity company in America.

In the past six weeks, we had a team of three people down in New Zealand looking at a ship that was up for sale. We spoke to the Scottish

Government about it, and it backed us and gave us a budget. We bid for the vessel, but unfortunately we were outbid by another ferry company. That was a huge disappointment for us as the asset owner. Equally, it was a massive disappointment for Serco, which desperately wants some more capacity, because the service has peaks and troughs, as all those services do. At the peaks now, there is simply not enough capacity.

However, we are continuing to look. Ultimately, when we have said that we have found something—including for the west coast, with the MV Loch Frisa—the Scottish Government has given us a budget and said, “Look, go and see if you can buy that vessel.” We were successful with the MV Utne, we were unsuccessful with the MV Arrow because of the pre-emption clause and, unfortunately, we were outbid by somebody with much deeper pockets than ours in relation to the MV Straitsman, which operates between the north and south islands of New Zealand. We are considering another vessel at the moment. It is absolutely our desire to ensure that there is enough capacity.

That also goes for the west coast. We have looked at hundreds of ships—650, in fact—over a five-year period, most of which we know, early doors, are not suitable at all. If we come across something that we consider to be suitable, we speak to the operator about it. The operator comes with us; a master from Serco went out to New Zealand when Jim Anderson was down there. Before anybody says so, it was not a holiday; it was two days or 48 hours of travelling to get to New Zealand, which was in crisis because of flooding, and two days back again. We were doing that sort of trip in under a week. We are literally going to the ends of the earth to resolve these issues.

10:15

The Convener: I have made a mistake. I should have brought the deputy convener in. I do not want to incur her wrath so I will bring her in now, and then bring in Monica Lennon.

Fiona Hyslop: Islanders are telling us that they need reliability, but we are obviously seeing more cancellations because of the weather. What actions are you taking to mitigate changing weather? We know that stormier weather is coming through climate change and so on. What are you doing to mitigate weather pattern changes and rising sea levels as you procure new vessels and invest in harbour facilities?

Kevin Hobbs: Jim Anderson has alluded to this so I will repeat what he said briefly and Ramsay

Muirhead can have his third shot at answering a question.

We are looking at the powering and station holding of ships and what sort of bow thruster capacity is needed, all of which leads to more resilience. We are aware that the weather patterns are changing, and not for the better I hasten to add, so we are doing everything that we can to future proof the ports. For example, some of the older, big vessels in the fleet might have a bow thruster capacity of 0.8MW, where the new ships have 2MW, which means that they will perform much better in difficult conditions at sea.

I will hand over to Ramsay because he can talk about the ports and what we are doing about climate change and rising sea levels.

Ramsay Muirhead: There are two aspects to look at: immediate resilience and what we are doing to effectively assist the operator; and longer-term planning for the future.

On immediate resilience, we have installed across our network weather and tide monitoring, and we are installing webcams so that the vessel skippers or masters can log on to our website to see live what the weather is doing. They can see the port and the tide and do not just have to rely on predicted tide tables. That has been so successful that CMAL has been tasked with assisting the other ports around the west coast with installing similar equipment to improve resilience, especially because of the worsening weather.

On new port design, climate change, global warming and potential rises in sea level are part of our port design. When we and our consultants are designing, we use UK climate guidance and Scottish Environment Protection Agency guidance to look at the potential rises in sea levels. As an example, at Gourock ferry terminal, we are at the design stage of redeveloping the port, and there is a predicted rise of almost 600mm in sea level in the worst case, so that is being included in the design. Effectively, we will raise the level of the pier to accommodate that.

As Kevin Hobbs said, we are trying to ensure that the ports are generally future proofed for weather and we are also trying to future proof them for vessels. We are therefore having a look at whether we can deepen the ports, lengthen the piers and widen the linkspans so that the ports are not a constraint in the future.

Fiona Hyslop: Clearly, greater strategic analysis is needed. At the end of the day, the masters will decide whether a vessel sails, but this will be the reality for the future. Does there need to be more strategic thinking across all our ports? We should bear in mind that not all of them are CMAL assets; local councils own ports and there

are other ownership models. As a country, we are so dependent on our islands and coastal communities, so rising sea levels and worse weather will have a major impact. Should the Government look more closely at how we future proof that whole asset base? Is there a danger that if CMAL, understandably, just looks after its own asset base, our thinking might not be as joined up as it might be when procuring vessels that need to operate at different harbours?

Kevin Hobbs: I guess that, if you started with a clean sheet in a green field, you would have the ownership of all ports under one banner, but that is just not the reality. The committee heard from councils—Scott Reid, Murray Bain, Uisdean Robertson et al—in a previous evidence session, and we are working very closely with those port owners.

Would we like to own more ports? Would that be better and easier for us when we were designing vessels? Yes, it would be. However, as it stands, there are different ownership models. There are private ports, trust ports and council-owned ports; one port—Canna—is owned by the National Trust for Scotland. CMAL owns 26 of the 53 ports—just under half of them—but we are in regular contact with everybody on how the ports develop, whether they are trust ports or council ports. We feed into that process.

As Ramsay Muirhead said, we were asked to—and the minister, Jenny Gilruth, gave a commitment to—roll out weather monitoring. That was already done at a number of our ports, but we will roll it out across all 53 ports. Some ports are very close to others. For example, Colintrave and Rhobdach ports are 800m apart—there might be a good case for a bridge eventually—so there will probably not be monitoring at both ports, because doing this stuff is not cheap. It costs between £25,000 and £30,000 per port. Therefore, if ports are very close together, we probably will not put monitors at both ends, but we will do so if ports are anything more than 10 or 15 minutes apart.

Fiona Hyslop: Thank you.

Monica Lennon (Central Scotland) (Lab): I have been very quiet today, waiting patiently to ask my questions.

I want to pick up from where the deputy convener left off. She made important points about future proofing our ports and harbours. Kevin Hobbs said that about half the ports are owned by CMAL, which is interesting. We have quite a mixed picture in terms of ownership.

CalMac suggested that greater standardisation of ports and harbours would be helpful. Do you agree with that? What can CMAL do, and what is it doing, to standardise vessels and harbour

facilities, with the aim of increasing flexibility and resilience across the network?

Kevin Hobbs: It goes without saying that we 100 per cent buy into that argument about standardisation of vessels and ports. That is exactly what we are doing. I am not quite sure why but, historically, Scotland seemed to build an individual ship for an individual island and then reinvent the wheel every time. We are not going down that road any more. From a standardisation point of view, four vessels are being built in Turkey, and one could argue that, if the money was there, another three or four vessels with, broadly, the same design could be built. That is complete standardisation, as far as it can go. Under the small vessel replacement programme, the vessels will all be of a standard type.

I do not think that we ought to get confused by what a ship actually looks like. Standardisation relates to a raft of things. A ship might be slightly wider or slightly longer, but standardisation relates to the machinery and navigation equipment that is on it.

Exactly the same applies to the ports. We are on a journey. The ports at Brodick, Lochmaddy, Uig—which is not ours; it is owned by Highland Council—and Tarbert, on Harris, are all being developed on the basis of a standard design.

To be perfectly honest, there is only one area in which there cannot really be standardisation. A lot of small vessels land on slipways, whereas the bigger vessels land on linkspans. We cannot standardise that. Standardisation is in progress in relation to the smaller vessels that land on slipways, and, equally, we are standardising the big ships. We 100 per cent buy into that argument.

Monica Lennon: I do not want to get too technical, but you mentioned machinery and navigation. Is there consensus about those matters, or are there different opinions or other barriers? Perhaps Ramsay Muirhead could answer that. I would be interested to know if there could be consensus on that area.

Ramsay Muirhead: We have relatively standard machinery and equipment across the port network. That goes back to the earlier question about what we are doing beyond the reach of CMAL. We have provided advice and managed projects for third-party ports. We have done that for trust ports and are doing it at the moment for council ports. Without blowing our own trumpet, we are seen as the experts on that across the west coast ferry network. People often look at what CMAL is doing, and we provide them with advice.

Monica Lennon: In her opening remarks, which seem like a long time ago, Morag McNeill talked about your work on the carbon footprint of ports. I

would be interested to hear more about the opportunities and challenges in that work. We have heard a little about work to mitigate the effects of weather and climate change. You have talked about your net zero journey. I want to hear how that journey is going.

Morag McNeill: Ramsay Muirhead can talk about the success of some of our recent projects.

Ramsay Muirhead: We can split our work on decarbonisation into buildings, piers and landside.

In our work on piers and landside, we have installed shore power in our own and third-party ports. That ties in with what Jim Anderson and Kevin Hobbs said about the small vessel replacement programme. We have shore power for our existing hybrid ferries so that vessels can be plugged in and charged overnight. We have two facilities, at Brodick and Tarbert, where large vessels can be plugged in, and we are putting in more shore power for the four new vessels that are currently being built in Turkey. Although those facilities will not charge batteries for propulsion, they will cover what is called the “hotel load” overnight, so that we will not have generators running all the time.

We have almost finished replacing all the street lighting around our network with low-emission LED lighting and we have electric vehicle charging points around the network. We have eight of those, and we will be putting in more at our new port development.

I can speak quickly about our buildings. Last year, we undertook an energy efficiency review of all the operational buildings at our 26 ports. That review will have short and long-term outcomes. A lot of the short-term outcomes are easy wins that have already been included in our planned preventative maintenance programme. We are putting in draft proofing and new insulation and are reviewing whether to change our boilers for more energy-efficient ones. We have put in biomass boilers and have air-source heating, solar panels and even a reed-bed system for waste water treatment. We are doing an awful lot for decarbonisation and will continue to do so.

Monica Lennon: I have been asking the Scottish Government about air-source heating recently because we have a long way to go domestically: I think there are only 21,000 homes with air-source heating. We need the Government and other key stakeholders to lead by example. The Scottish Government responded last week and told me that it has only one building with an air-source heat pump. You have adapted Tarbert ferry terminal. Did that go well? Have you learned anything from that that you can share with the rest of Scotland?

10:30

Ramsay Muirhead: Yes. The Tarbert work only finished and the terminal was only operational about a month ago. At the moment, in terms of learnings from that, the installation all went very well, but we have not been running it long enough to see how it goes. We have, though, been using a biomass boiler in Brodick since 2018, so for five years now, and that is working very well. The fuel type is wood chips instead of pellets, because there is a chip supplier on the island. It would have been rather foolish, shall we say, to have gone for a pellet supply and had to bring them across on the ferry; that would have been slightly self-defeating. It works very well.

Liam Kerr: I have a follow-up question to something that Kevin Hobbs said earlier. I asked you about the contract for the ferries that are being built in Turkey. Specifically, you said that there was no stipulation in that contract to use Scottish, UK or EU supply chain where possible. I have seen such clauses in other sectors, so I want to clarify who would have put that in, if such a clause had been desired in the contract to build the ferries in Turkey. Would that have been within CMAL's gift, or would you have waited for instruction from the Scottish Government to put that in as part of the contractual criteria?

Kevin Hobbs: It would have been in CMAL's gift to do so.

Liam Kerr: So—

Kevin Hobbs: Sorry to interrupt, but that does not mean that an awful lot of European suppliers are not supplying to the Turkish shipyard—they are, including Scottish suppliers. The way that the contract runs is that we have a very close working relationship with the shipyard. It proposes what equipment it will put on the ship and, obviously, one of the key criteria is whether that is supportable. That lends itself to quite a lot of input from European yards.

James Anderson: I suppose that it is quite sad. I have been involved in shipbuilding on the Clyde all my working life, and the number of suppliers is reducing and reducing, so there are very few. One that Kevin Hobbs mentioned, for the stabilisers, is a Scottish-based supplier, but there are very few suppliers that can provide the shipyard that we deal with in Turkey. We have such an open relationship with the yard that, if the suppliers exist in Scotland, the yard will contact them and ask them. However, major suppliers of equipment are few and far between now. That is just what the situation is.

Liam Kerr: I understand, but it was for CMAL to put a stipulation in the contract to say that, if it is possible to use Scottish suppliers, that should be

the preference. It was for CMAL to make that decision.

Kevin Hobbs: Yes.

The Convener: I am just looking around. I have one further question, and if no other members have any questions, I will ask it.

Based on the evidence that you have given this morning, Kevin, I am enthusiastic about the number of ferries that are up for design and delivery. I am less confident in the price, which I think is a year old; I think that it may be significantly more.

If we are to look forward to the sustainable delivery of ferry services in Scotland, we have to look back to the history and the Rural Economy and Connectivity Committee's report, which said that we did not get the contract right. When talking about new design, the report said:

"action should ensure that future contracts achieve the most appropriate balance between cash flow and risk and include more robust safeguards".

It goes on, but, based on that, it would give me more confidence, looking to the future, if we could understand the tender process.

I accept that you may not be able to give all this information today—we would be happy to receive it in writing—but we would like an explanation of the tender process, how you went through it and selected the yard; the sign-off of the design of the ferries; the overall cost that has been agreed at the outset for each boat; how the staged payments will be made, how many there are and who will check them; and on what dates delivery will be made and the penalties that will be in place for failing to meet those delivery dates. That seems the most important process in getting future ferries to Scotland on time, as the report highlighted, and if we are to have a sustainable ferry service, we need to be confident that it is being achieved. Are you in the position to write to the committee to clarify those points in relation to the contracts?

Kevin Hobbs: Anything for you, Edward.

The Convener: You are so generous, and I take that in the spirit in which I am sure that it was meant. However, we have to make sure that we have this right.

Fiona Hyslop: The witnesses will know that we heard from representatives from Norway. Although Norway is different from Scotland—it is more coastal and we have the islands experience—I was struck by their forward-thinking approach. Norway is operating with new technology; it is about to deploy a hydrogen vessel and has automatic berthing in some ports. I was also struck by its iterative procurement process that is close to market and incentivises innovation.

I understand and appreciate that CMAL has gone through challenging times in the past, and that to switch to a different approach and culture requires resources, support from Government and long-term strategic thinking about how innovative we want our sector to be. What are your reflections on what that would take? We can make recommendations in our report to the Government as to the type of ferry scenario that we want. It is about strategic thinking, a joined-up approach and trying to reduce the use of roads and cars rather than building vessels to take more cars—for example, why are we not thinking about end-to-end traffic? Is there something about the Norwegian model that attracts you and that you think Scotland could aspire to, and what would it take for us to achieve it?

Kevin Hobbs: I do not think that we are particularly far away from it, to be honest. Members have heard about what we are doing on decarbonisation, and they have heard that we are involved in a number of internationally recognised projects, including the HySeas project, on which we have approval in principle for a hydrogen-powered vessel, so it is not that we are lagging behind. In fact, if you look at CMAL's history, you will see that we won awards for the first-ever diesel-electric hybrid in the world, which was Jim Anderson's brainchild.

We have a network of contacts in the ferry industry because of our experience. Everybody is talking because every responsible human being wants decarbonisation to happen. This is a journey, for sure, and we have told the committee that we do not have all the answers, but everybody is working collaboratively in the ferry industry and in the global shipping industry to achieve that 2050 target or, in Scotland's case, the 2030 and the 2045 targets.

I do not think that we need anything more. The money to replace the ferries and ports is what has been missing, and it is no secret that we feel there has been a lack of investment during the past 20 years, since the turn of the century. However, that has been addressed with the infrastructure investment plan, by which I mean the £580 million, which is now £695 million. We told the committee what the overall budget used to be. We are revisiting that because of issues related to inflation. We are not playing follow the leader. We, along with the industry, are applying all our joint and collaborative knowledge to do the best that we can on climate change.

Morag McNeill: There is a wider discussion about research being done in Scottish universities. I will take off my CMAL hat and put on my hat as deputy chair of court at Heriot-Watt University, which has a big hydrogen project. We need to look closely at research that is taking place across

universities, working in collaboration with industry. I do not think that any one person has the answer, but the more people are looking at that, the more chance we have of finding solutions.

The Convener: Thank you very much, and thank you all for coming this morning. I concur with you, in that I do not think that islanders want gold taps in their terminal buildings; they want a reliable ferry service, which is the point of this inquiry. Thank you very much for giving evidence to us this morning.

I will briefly suspend the meeting to allow for a changeover of witnesses.

10:40

Meeting suspended.

10:47

On resuming—

The Convener: I welcome Jenny Gilruth, Minister for Transport—thank you for joining us, minister. I also welcome from Transport Scotland Laurence Kenney, head of ferries policy, and Chris Wilcock, head of ferries unit.

Before we begin, I believe that the minister would like to make a brief opening statement.

The Minister for Transport (Jenny Gilruth): Good morning, convener, and thank you for the opportunity to speak with committee members this morning. I welcome the committee's inquiry very much and, to that end, I thank it for this morning's opportunity.

I spend a great deal of my time as transport minister engaging with our island communities. Most recently, I was in Islay during recess speaking to local stakeholders about project Neptune. I am sure that we will hear more about that during the course of today's committee meeting. That consultation is well under way and is being led by Angus Campbell.

To my mind, the committee's inquiry is extremely timely. I am keen to hear from members today about their views on areas for improvement in relation to how we deliver ferry services in Scotland. I reflect that a substantial body of evidence already exists in relation to the topic. We have the REC Committee report from last session, the Audit Scotland report from March of last year, the pending Public Audit Committee report, and project Neptune, on which I provided an update to Parliament back in September. I very much welcome the committee's inquiry, but I also know that we need to ensure that these recommendations are implemented at pace and that we have concrete solutions for improvements

that are backed, of course, by our island communities.

The challenges that have been faced in relation to the CalMac fleet, particularly in recent times, will be well known to committee members. Island communities deserve better than the service that they have been experiencing in recent times. I am alive to that.

It is worth reflecting—as I think that the committee heard in some evidence from CMAL in the previous session—that weather is impacting on sailings in a way that it has never done in previous years. For example, in January and February of last year, just over 92 per cent of all cancellations were due to either weather or Covid-19. Indeed, last January and February weather accounted for 10 per cent of all cancellations

Those impacts are one of the reasons why I announced additional Scottish Government investment to give weather monitoring equipment to third-party ports. As the committee heard from CMAL, that should result in more reliable forecasting and less disruption.

I also announced last year that Transport Scotland is developing performance indicators that will be distinct from contractual targets, to better reflect the real experience of passengers. However, none of that detracts from the fact that we need to bring about greater resilience in the CalMac fleet, which is exactly why, in the past 12 months, I have accelerated investment into the fleet. In the past six months, CMAL made offers to purchase two second-hand major vessels—the MV Arrow and the MV Straitsman. Unfortunately, those offers were unsuccessful. Securing additional second-hand tonnage is difficult in a competitive market. It remains challenging, but commercial discussions remain on-going.

It is worth saying that, by the end of this session of Parliament in 2026, on top of the MV Loch Frisa, we expect to have delivered six new major vessels, and we expect the small vessel replacement programme to be well under way.

Secondly, as I mentioned, community engagement on project Neptune, led by Angus Campbell, is already under way. Finally, I was pleased to publish an advance draft of our long-term plan for vessels and ports at the end of last year, as a first, and significant, element of the islands connectivity plan.

I put on record my thanks to the committee for the significant effort that it has made in engaging constructively with our island communities. It has been really helpful to hear some of the feedback. I know that the committee has been to Arran, Orkney and islands in the Outer Hebrides—I, too have visited those areas recently.

Clearly, we now have to reform how ferry services are delivered in Scotland, but with the guiding principle that our island communities have to be part of what comes next. I look forward to the committee's report and to responding to the outcomes of the inquiry. My officials and I will be happy to take questions.

The Convener: Thank you, minister. I have a quick question to start us off. The most recent ferries plan is more than 10 years old, and it has taken 10 years to come up with a new plan, which we have not yet had sight of. Are you happy that 10 years is the right period for a plan to exist, or should it have been reviewed earlier? What lessons should we take from the whole process?

Jenny Gilruth: I may bring in officials on whether the ferries plan should have been reviewed earlier. It is worth pointing out that the plan, which ran until this year, has already delivered a number of improvements. For example, we have got new routes running. As the committee heard earlier from Mr Hobbs, we have got the Campbeltown route and the new Mallaig to Lochboisdale route.

We have also had the roll-out of road equivalent tariff for passengers and cars on the CHFS network, which has saved passengers a significant amount of money—bluntly, £25 million a year. We have also had big upgrades in relation to port infrastructure, for example at Brodick pier, Tarbert and Wemyss Bay.

On the islands connectivity plan, the timescale was agreed previously with the ferries plan. Learning has been taken from the ferries plan. My understanding is that the timescale was agreed to—I think that it works well. We need to have that long-term forecast for where we are going next.

The plan is in draft. That is quite important. It is key that we engage with communities on what happens next. I do not want to do something to island communities that they are not content with, and it is really important to islander confidence that we mark out a clear way forward.

Chris Wilcock or Laurence Kenney may want to say more about the review period in the ferries plan that ran for the past decade.

The Convener: Perhaps they could comment on the fact that we heard in evidence last week from one of our Norwegian witnesses that the ferry fleet that we have in Scotland would not be in a position to tender for routes in Norway.

Chris Wilcock (Transport Scotland): First, as I think that the committee will have heard in the earlier evidence session and, hopefully, it will have seen from the draft plan, our ambition is that the fleet will have a much-reduced age compared to its age at the moment. The target age is 15 years.

That is very much where our focus lies. The age of the fleet and the challenges that we have around that are well known. In my tenure in the role, we have been working towards reducing the age of the fleet, as have colleagues and my predecessor. There is some real momentum behind that in terms of the investment that is going in now.

With regard to the ferries plan, my understanding is that there was a suggestion that there might have been a five-year review of the plan. That did not take place in a formal setting. The plan was not an entirely static document. We did not just have that as the blueprint that we were working to. There was also the vessel replacement and deployment plan, which was reasonably regularly updated as part of the process. That has now morphed into the version that you see in front of you, in terms of the pre-consultation draft.

As we go forward, we have taken the deliberate decision not to have a solid single plan but a ring-binder approach to the next plan—the islands connectivity plan—which will lend itself to more regular review of the individual components as we go along. Clearly, key parts include the vessel investment piece, but there are also on-going issues around fares and other things that we would probably review more regularly as part of that plan—whether that be every five years or more regularly for some parts of it. Certainly, our reflection is that we would have a more regular review of that in the next plan.

The Convener: Minister, do you want to add anything to that? You have suggested that Laurence Kenney might come in. It is up to you.

Jenny Gilruth: I ask Laurence to come in if he would like to do so.

Laurence Kenney (Transport Scotland): Yes, I am happy to update on that, convener.

The long-term plan, which we published as an early draft just before the new year, identifies a three-year review period for ensuring that it is kept up to date. I echo what Chris Wilcock said: the approach that we are taking now with the different elements of the islands connectivity plan overall allows us to update things on a more regular basis.

The Convener: Okay. We come to the next lot of questions, which are from Mark Ruskell.

Mark Ruskell: My questioning follows on from that point, convener. Mr Wilcock, you were talking about the ring-binder approach to the islands connectivity plan. Can we get a sense of where the other parts of the plan will slot in, and the formal timetable for its adoption?

Coming out of that, there is a question about why the long-term plan for vessels and ports has been published ahead of the community needs

assessment. Will you give a little more detail as to what is coming, when it is coming and why the decision was made in particular to publish that piece of work on vessels and ports ahead of the one on community needs?

Jenny Gilruth: I will answer, then I may bring in officials.

There are a number of elements to the ICP. The long-term plan for vessels and ports was published at the end of last year. There will also be elements on the community needs assessment, on fares policy, on connecting and onward travel and on the low-carbon plan. Those are the sections of the ICP.

I expect to receive advice from Transport Scotland in the coming weeks in relation to the deadline and timescales to which we are working, and I am happy to share updates on that with the committee.

The final ICP will be relatively short, as an introductory document to that ring-binder approach, which I have agreed with Transport Scotland. That gives a more iterative process and allows us to be more reflective as an organisation—to change things when we need to change them. In the past, we may not have been as reflective and as constructive in that respect, because we have been quite static in our approach to policy development and to how that is implemented on the ground.

In relation to your second question, we prioritised the publication of the long-term plan. As I mentioned, an advance copy of that draft was published, on 30 December—I recall reading it between Christmas and new year. That is a working draft. It is important that we now get stakeholder feedback on that draft.

I go back to the point that I made to the convener at the start of the session: I do not want to foist on island communities something that they do not want. A further version of the draft is now being prepared in light of some of the feedback that we have already had. The plan is to commence public consultation in April, I think—officials will correct me if I am wrong.

The ICP and associated delivery parts, which I outlined at the start of my answer, will be supported by impact assessments, too. The majority of Transport Scotland's work on the ICP and those chapters within it will be completed during 2023 but, as I have said, I await its further advice on the full timetable for the sections that I have updated Mr Ruskell on.

Mark Ruskell: Thanks. That describes an iterative process and conversation with communities about their needs and the vessels and ports that are required to meet those.

That is me for now, convener.

The Convener: Okay. Perfect. We will definitely come back to you.

Liam Kerr: Good morning, minister. To follow on from that questioning from Mark Ruskell, the current CHFS contract ends in October 2024. Where are we when it comes to future planning for the service delivery and the process of tendering? Will it be a problem, or is there a concern, that the contract is—presumably—in the planning stages now, before the islands connectivity plan or the long-term plan are finalised, or even before they are at the working draft stage?

11:00

Jenny Gilruth: I understand Mr Kerr's concern. I think that it is not unhelpful that the two things are happening simultaneously. As I said in my opening statement, we are going out to consult on project Neptune. Angus Campbell is leading that work, part of which involves asking communities about what they want to see as part of CHFS3, for example how we can change the future contract to deliver a service that works better for island communities. Committee members have gone out and spoken to island communities and know, as we do, where the real challenges are.

I assure members that service delivery will continue, irrespective of the model that we use in future. Transport Scotland is looking at the most appropriate way to continue services. We will engage with key stakeholders. I hope to be able to update the committee more fully in the coming weeks about what those arrangements will look like. Whatever we do with the next CHFS contract, it is really important that that is something that island communities want. I am very aware that some parts of the current contract do not work for island communities and we do not want to replicate that with what comes next. It is important that we hear from communities. The officials may want to say more about how that approach has been developed within Transport Scotland, where the work is on-going.

Chris Wilcock: A number of changes were made following the introduction of the current CHFS2 contract. We take a snapshot of what services are like, so that we have something to tender on, and we tender on that basis, but things can change during tendering. The most significant change was the introduction of new routes in 2015 and the introduction of RET across the network. Any contract process has to be flexible enough to accommodate policy changes, particularly when the length of a contract may exceed the length of some plans or of the review periods within them.

As the minister said, we are working on the shape of CHFS3 and considering how best to

align the two pieces of work so that there are synergies as procurement begins and as Laurence Kenney and the team take that detailed work forward until the contract is in place.

Liam Kerr: I understand.

Minister, you talked about the consultation on project Neptune. One of Ernst & Young's recommendations was that the key commercial principles and long-term strategic objectives should be agreed by summer 2022. Have those been agreed?

Jenny Gilruth: To the best of my knowledge, they have not, because the work on CHFS 3 is on-going. I will bring in an official to speak on that and I am happy for Transport Scotland to correct me if I am wrong.

Chris Wilcock: That is correct, minister. The agreement is part of that work.

Liam Kerr: I have one final question at this stage. In your opening statement, you mentioned the long-term plan for vessels and ports. I was interested in the part of the plan that states:

"We will reduce the average age of the fleet to around 15 years by the end of this decade."

In our earlier session today, representatives from CMAL talked about their plans to do that. They are reasonably confident that they will be able to achieve that, but they also talked about the cost of doing so. You might have heard the chief executive say right at the end that CMAL needs money to replace ferries. I think that I heard them say that the cost of that was £1.4 billion even before inflation reached its current level. Do you have an idea of the cost—adjusted for inflation—of achieving a fleet with an average age of 15 years by the end of the decade, and will CMAL have enough money to do that?

Jenny Gilruth: The straight answer to Mr Kerr's question is that I do not have a figure based on the impact of inflation. I think that we heard Mr Hobbs say that he was not sure what the impact of inflation would look like in relation to the costs agreed. We will have to consider that. Irrespective of portfolio, inflation has had quite a dramatic impact on what we are able to do as a Government. That has limited our potential to create investment in many different parts of the transport network.

Mr Hobbs made a point about accelerating investment. To my mind, that is how to bring down the average age of the fleet. Since May 2021, we have brought in the MV Loch Frisa on the Oban to Craignure route, we have managed to charter the MV Arrow and have made significant progress on vessels 801 and 802. Early last year, I announced the procurement of two new vessels for Islay and at the end of last year I announced an additional

two new vessels, making four in total and bringing a really important level of standardisation across the fleet. Therefore, in the past financial year, we have been able to leverage additional investment, which I think is crucial to getting us to that reduction of the average age of the fleet.

However, in relation to your overall question, I make no bones about the fact that the work will be financially challenging for the Government. Of course, the Government has responded—and will respond in due course—to where we are able to prioritise those investments, in order to meet the requirements that the plan sets out.

Liam Kerr: I understand the answer, but I will press you on that. I asked you what is the new inflationary cost of the plans on the long-term plan that is still at the working-draft stage. Should the Government not be very quickly assessing the fact that CMAL thinks that there is a £1.4 billion cost? We are in inflationary times, so when will you be able to revert to CMAL and say: “Okay, here is what is happening with inflation, so here is the real cost, if we are to achieve what you have set out in the long-term plan”?

Jenny Gilruth: Obviously, we will have to do that as a matter of urgency, but I reflect to committee members that that is the first time that I have heard that statistic. I do not know whether officials have heard that previously in relation to inflationary impacts. It is also important to reflect that we have already leveraged £580 million into ports and vessels, so the additionality, which has been brought in the past financial year, joins that contribution.

In answer to Mr Kerr’s wider point in relation to inflation, of course, we will need to work with CMAL on mapping out what those inflationary impacts actually mean for the current fleet and the deliverables, which are absolutely key.

However, today was the first time that I had heard that particular statistic in relation to the inflationary impacts on the fleet. I am happy to hear officials’ views on that, but I think that we will need to look at the point that Mr Kerr has raised.

Chris Wilcock: I give the assurance that my team is regularly engaged and is working in that collaborative way with CMAL, building on its advice around what those projects are looking like. My team is looking at where some of those pressures might be and how we can accommodate them within expected budgets.

It is not as straightforward as applying a simple 10 per cent inflationary uplift. Given wider market conditions, in some projects, our other costs of materials are going considerably above that 10 per cent. In some cases, from early estimates—particularly in port infrastructure projects—there has been an uplift of 40 per cent, 50 per cent or 60

per cent in some of those costs. These are challenging times for us, even with the £580 million and the additional moneys that have been secured. We are absolutely mapping that out, and I go back to Laurence Kenney’s point about why that plan will have to be reviewed on a rolling three-year basis, to feed into that hopefully longer-term budgeting process that we have benefited from with the IIP moneys.

Monica Lennon: Good morning. Minister, you have already mentioned islanders a few times, as well as the way that you want to approach your relationship with island communities. Do you support calls for island residents to sit on the boards of CalMac Ferries and CMAL?

Jenny Gilruth: Yes, I do. I think that we need more islander representation on those boards, although boards are not the only way in which I expect CMAL and CalMac to listen to island communities.

You heard from Morag McNeill, who is the first woman to hold the role of chair at CMAL. At the end of last year, I was able to appoint Murdo MacLennan, as a non-executive member, to the CMAL board. He is already making a big impact on that board in relation to the work that he is undertaking with island communities. However, I agree that it is really important that we have islanders on those boards, so that they can reflect the lived experience of people who live on our islands and depend on those lifeline services.

There is a challenge there and, following it through, I suppose, if Transport Scotland had any pushback for me, it would be that we need to ensure that people who are on the board have the necessary skills and experience. Working with CMAL and CalMac, the Scottish Government and Transport Scotland need to ensure that there are opportunities for people to get those extra skills and experience if they need them. We need to focus on upskilling people, if there is a need for that, as well as recognise that islanders will bring a strength to those boards in relation to the delivery of services for island communities.

Monica Lennon: Is there pushback from Transport Scotland?

Jenny Gilruth: I will let Transport Scotland answer that.

Chris Wilcock: Not to contradict the minister, but I certainly would not characterise any pushback. I think that it is important that we have the right mix of skills and expertise on the board. In the most recent round, we have cast the net pretty widely. We have focused on where we can advertise better to attract people with those skills and that element of connection or location.

We are looking at whether there is something else that we could be doing, as the minister said, to support people who would not normally apply to come forward—people of different ages and with different characteristics to those that we sometimes see. That point applies generally and not just to those boards, and that is feeding into that work across the piece.

More specifically, in relation to those particular board positions, there was a requirement for those who came forward to demonstrate that they fully understood and were familiar with the issues. I am very pleased to see Murdo MacLennan in the CMAL space and engaging on that basis.

Jenny Gilruth: I will build on Chris Wilcock's point. I have alluded to project Neptune in a couple of my responses already. Angus Campbell, who is leading on the work, is hugely important in that respect. Although he is a former islander, I think that he has a house in Stornoway. Angus Campbell is leading on that work and, as an islander, the information that he is able to glean from some of the consultation events is different to that that mainlanders might get, if that makes sense. Because he has a relationship with island communities, he is able to garner much better information—much more qualitative feedback—to inform an improvement to the service, which is really important.

It is not just about islanders on boards, although that is important and I absolutely agree with Ms Lennon's point. It is also about ensuring that we build on islander representation throughout the process, whether that is CHFS, project Neptune or the ICP.

Monica Lennon: That is excellent. I think that we would all agree with what we have heard.

I will build on that. I am thinking about trade union representation. Minister, you work closely Scottish Rail Holdings Ltd, and it is very positive that the trade unions have representation. At the moment, that is through Roz Foyer, the general secretary of the Scottish Trades Union Congress. Would you support similar arrangements for relevant trade unions to sit on the board of CalMac Ferries and CMAL?

Jenny Gilruth: Yes, absolutely; I would.

Monica Lennon: Again, would Transport Scotland also welcome that?

Jenny Gilruth: Well, it would have to, because I am the minister.

Monica Lennon: Just checking, just checking—*[Laughter.]*

Jenny Gilruth: It is important that we have trade union representation. Having Roz Foyer on the SRH board brings a strength to our

relationship with trade unions but also to the delivery of the service model. Therefore, absolutely, it is a model that we should look to roll out across more of our public bodies, because direct engagement and representation are really important.

Monica Lennon: That is clearly an aspiration of the minister. What work is under way to make that happen?

Jenny Gilruth: As I think that I alluded to in my opening statement, I am very conscious that a lot of evidence exists of the problems and where we need to go next in relation to the delivery of ferry services in Scotland. What I need to do now is move us forward on project Neptune specifically. However, your point about trade unions is a good one, so I will certainly take that away as an action point from today's meeting, and I will speak to CalMac and CMAL about what we might be able to do in that space.

Monica Lennon: Thank you. I remind members of my entry in the register of members' interests as a trade union member and a member of the National Union of Rail, Maritime and Transport Workers parliamentary group.

I will move on. What scope is there for devolution of management within CalMac Ferries to bring decision-making powers closer to those directly responsible for service delivery? I am thinking beyond places on the board.

Jenny Gilruth: There should be lots of scope for greater devolution of management, because, in my experience as minister, island communities often feel that CalMac is a bit top-heavy. In the future delivery model, it would be important to look to have a more people-focused organisation that is on the ground in our island communities. If you go out—I know that the committee has been out and about—and speak to folk who live in our island communities, they will tell you that some of the best people who work in the organisation are the people who work in the ports or the ticket offices or who help them on the boats. There are some fantastic people in these organisations. Obviously, at the moment, we are talking about CalMac, but I should say that that is also true of Serco NorthLink.

Ms Lennon is right in relation to the sentiment of her question about the devolution of management or, I suppose, having a more front-facing organisation, and there should be opportunities for that. One of the things that I have done as minister, in the past year and a bit, is to convene regular resilience calls. It is really important that, as minister, I hear regularly and routinely from island communities when there are periods of sustained disruption. However, it is not just me who comes to those meetings—it is also CalMac,

CMAL and Transport Scotland. There is something about organisations facing up to challenges when they occur—of course, I also do that as minister—and the community seeing it, understanding it and, in my experience, actually being reassured when there are challenges on the network.

The people from island communities who I speak to on the resilience calls are reassured when they know that there is a plan. What does not provide them with reassurance is the uncertainty that outages cause.

To go back to the overarching question that Ms Lennon asks about that devolution of management, we need to think about how we can get more of CalMac's management team into our communities. We also need the organisation to think about the strengths that it already has within it—the people who work in the ticket offices and on the front line. They are fantastic advocates and ambassadors for the organisation, so it is not just all about the managers.

11:15

Monica Lennon: On our visits to island communities, we have also had some feedback about Transport Scotland, so you will not be surprised that I have some questions around that. Minister, are you confident that Transport Scotland ferry officials have sufficient training and experience in maritime matters to effectively specify and manage ferry service contracts of significant scale?

Jenny Gilruth: Yes, I am. Transport Scotland is made up of civil servants, who are generic civil servants who work in lots of different Government departments, but I have two very experienced officials with me today and I am not just saying that because they are with me. I do not have a concern about the experience in Transport Scotland.

However, at the current time, the capacity within Transport Scotland is quite challenging in relation to ferries. That is because my officials spend a lot of their time responding to parliamentary inquiries, reports and the copious amounts of correspondence that we receive. That is fine, but it takes time and I sometimes think that it is a pressure that needs to be addressed. I have raised that with the permanent secretary, in relation to providing greater capacity within the ferries team, in particular, to ensure that we have the staff on board to deliver the changes and improvements that passengers expect us to.

Monica Lennon: In your assessment, there is a need for greater capacity. Is that just in terms of answering questions and dealing with normal

parliamentary scrutiny—and, I guess, media scrutiny—or is it more than that?

Jenny Gilruth: It is not just that. I will allow Transport Scotland to answer for itself, but it is fair to say that, in recent times—I will be careful how I say this, convener—because the issue of ferries has become topical in the chamber and parliamentary committees, as is quite right and is, of course, in Parliament's gift, the workload pressures on Transport Scotland have been greater than they probably have been at any other time before now. That has an impact on the progress that we have been able to make in a number of different areas. I will allow Transport Scotland to speak—

Monica Lennon: Just before it does, I want to make it clear for everyone listening that you welcome that scrutiny and the opportunity for any lessons to be learned.

Jenny Gilruth: Absolutely. The committee's inquiry is really important and I am keen that we use it and the recommendations that you will provide us with to inform the draft ICP, CHFS3 and where we get to on project Neptune. I very much welcome it.

Chris Wilcock: I absolutely echo those points about what we can take from the inquiry as well as, rightly, responding to the scrutiny that is involved. We can take things from the evidence of the people who have been in front of the committee already, from the committee's reports and from the direct engagement that we are having today. As the minister said, there are pressures within the team around responding to a number of things, but we have benefited from some additional resources in recent times and from a bit of pivoting in the organisation to support that.

That has allowed us to get into a forward-looking space, which is where I think that the committee is, and to put people into driving forward the ICP work. That is what we and communities are really keen to press on with, to get some certainty and engagement on reshaping our draft plan. We are really looking forward to getting out there to do that and continuing the engagement that we already have with communities and stakeholders across the piece.

Monica Lennon: I am sure that you will be reassured that the minister has confidence in Transport Scotland and everyone in your team. However, you will recognise that the public perception can be different—we have heard some challenging conversations during our inquiry visits.

Going back to the original question, which was about the sufficiency of training, skills and expertise with regard to managing contracts and projects of significant scale, what do you think

needs to happen to improve that public confidence in Transport Scotland?

Chris Wilcock: I have certainly heard some of those reflections in the committee's earlier sessions, but I am not sure that they are entirely universal. They certainly do not reflect our experience when we have those detailed engagements.

As the minister has said, we are generalist civil servants. We set policy, but we do not dictate it, and we work with communities, stakeholders and other parties on it. That said, we rely very much on the expertise in the other parts of the tripartite arrangement—I say “tripartite”, but obviously Serco NorthLink is in the mix, too, as well as the ferries community board and all the others with whom we engage across the piece.

We do not purport to be the overall experts with all the answers; our role is very much to support ministers in their engagement around contract specifications and other elements. As with other large Government contracts, we also rely on the advice of industry experts and consultants, as people would expect us to do as part of such work.

Jenny Gilruth: Following on from Chris Wilcock's point about consultation, I would say that it is not just for Transport Scotland to go out and consult island communities; I would expect CalMac and CMAL—as they do, routinely—to go out and do the same. There is, as I think that you heard Mr Hobbs say in the previous evidence session, a role for all organisations in the tripartite arrangement to build on that consultation.

Monica Lennon: Something that came up a lot on our visits—I am looking at the deputy convener as I say this—was the use of the phrase “consultation fatigue”. There is no lack of visits from committees, MSPs and ministers. We are speaking to as many people as possible to ensure that we are not treating the islanders as a homogeneous group, but having come fresh to this portfolio, do you recognise the issue of consultation fatigue and people having to say the same things over and over again?

Jenny Gilruth: Yes, I do. Something that I picked up with Transport Scotland a few months ago brings me back to Mr Kerr's question about the choreographing of all those things—CHFS3, project Neptune and the ICP—because my concern as minister was that we could not go out and consult on three different things. I do not think that that is wise. We are trying to learn lessons through project Neptune and gather some information through Angus Campbell's hugely important work in that regard.

However, I recognise what Ms Lennon has said about consultation fatigue. In my view, that is what happens when people do not see things changing,

and they get fed up. The next important step is to show people what change will look like in future and to follow that up. Angus Campbell's work, which concludes at the end of next month, will be vital in setting out what the next steps will be and where the community wants us to go and ensuring that that is where we get to and that we avoid the issues that Ms Lennon has outlined.

Monica Lennon: I am mindful of the time, convener, so I will finish with one tiny question. Given that the Scottish Government's ferry expert group has, I believe, been disbanded, what sources is Transport Scotland drawing on for expertise on ferry services?

Jenny Gilruth: Transport Scotland will consult and engage with a range of different experts, and officials might want to say more about that. The ferry expert group was disbanded before I became transport minister, but I have met a number of individuals who used to sit on it. I know a little about its history, and I understand—officials can correct me if I am wrong, because they will know more about the history—that the group had evolved into something away from its original aim.

Ms Lennon's overall question, though, is important, because although Angus Campbell can provide me with the views of communities, I also need a view from experts on what we are developing and delivering. I have therefore asked Transport Scotland for advice on pulling together a round table of experts at international level. Of course, project Neptune looked at lots of different countries' delivery models, because it is hugely important that we do not lose out on that expertise.

At the tail end of the previous evidence session, I heard Morag McNeill talk about the importance of academic expertise. Such expertise is hugely important, and I know that CMAL uses it in its own work. We therefore need to cast the net wide, and I am sure—indeed, I know—that Transport Scotland engages regularly with experts. The board was just one way in which that was done historically; I do not think that it is not an on-going process.

Monica Lennon: Does Laurence Kenney or Chris Wilcock want to add anything briefly on the question of the ferry expert group?

The Convener: This is your last question, Monica. You have pushed the envelope with your questioning, and I have to bring in other committee members.

Laurence Kenney: In the interests of brevity, I will just say that, as the minister has articulated, there was a general acceptance that the group had not fulfilled the function that had originally been envisaged. The minister has also outlined that, as well as already drawing on the expertise of the operators and CMAL, we have had

engagement as part of project Neptune with a number of international operators and, indeed, our Government counterparts, which was quite an interesting experience. That is definitely something that we can build on, and it is something that we need to take away with us along with the recommendation that the minister has made.

Monica Lennon: Thank you.

The Convener: I am sorry to cut you off, Monica. I call Fiona Hyslop.

Fiona Hyslop: I want to look ahead to what will come next, after project Neptune. There is a variety of strategic thinking on ferry operations, procurement and asset ownership at various points and in different arrangements, and there are different options on the table. How do you know that Transport Scotland is doing its job?

Jenny Gilruth: As the former cabinet secretary will know, I have confidence that my officials are doing their jobs. Project Neptune was carried out by Ernst & Young as the appointed consultant. It carried out that investigation last year and I published it and presented it to Parliament in September.

Overall, the role that Transport Scotland fulfils is a hugely important one, and I have confidence that it is fulfilling its role, if that is the deputy convener's question.

Fiona Hyslop: Are you open to a different arrangement whereby some of the strategic thinking might lie within the Government, particularly as a lot of it is about wider connectivity and net zero issues? Some of Transport Scotland's strategic work could well overlap with some of CMAL's current functions. Are you open to thinking about different approaches to ensure that we have the required governance and accountability, potentially informed by what the committee recommends?

Jenny Gilruth: Yes—absolutely. I am not going to disband Transport Scotland at the committee's meeting this morning, convener. However, to get into the detail of Ms Hyslop's question, it is important that we recognise some of the challenges with the current tripartite structure. I am sure that committee members have read the project Neptune report and they will know that the tripartite structure comes with a number of challenges. There is a line in the report that says that the role of ministers is often quite detached from the tripartite structure. That is problematic, because I answer parliamentary questions in the chamber and I appear before the committee, yet ministers can feel very detached from that process.

Ms Hyslop asked whether some of the responsibilities could be transferred within the

Scottish Government. Yes, they could. Could that strengthen the relationship between Transport Scotland and the Scottish ministers? Yes. Ultimately, following project Neptune, the community consultation work will tell us where the community wants us to go in that regard, and I am keen to hear from it. I do not want to prejudge that, but Ms Hyslop makes an interesting point.

Fiona Hyslop: Will you set out on the record why the Scottish Government does not favour the option of unbundling the routes? What advantages do you see in keeping with the status quo in that regard?

Jenny Gilruth: Unbundling is not an option that is favoured by the Scottish Government. I think that that decision was reached in 2014, although Chris Wilcock will correct me if I am wrong. At that time, a decision was made that unbundling would not be the approach that we would take.

Ultimately, if I thought that unbundling would be a silver bullet, it would be on the table. I am not sure that it is. In my job, I hear different things from communities on a daily basis, and it is not clear to me that unbundling would work, given the variety of routes and vessels that we have in CalMac.

It is important that we concentrate on delivering a better service across the network. That is certainly the decision that was taken historically in relation to unbundling. It could also be a distraction from the focus on improving resilience and reliability. We will not be reopening that question as part of project Neptune. I know and understand that people have different views on it, but it is not something that the Scottish Government will be considering at the current time.

Fiona Hyslop: Is that because you are focusing on resilience and reliability, which is what we have heard? We heard from our witnesses from Norway that innovation can come from unbundling. Do you believe that, as CMAL is the monopoly provider and CalMac is the operator, we have different market conditions and a different experience?

Jenny Gilruth: It is interesting. The Norwegian experience is very different from what we have in Scotland, given the number and type of routes that are run and the type of vessels that are used. If we look at project Neptune, we can see that Scotland is quite unique in how we deliver ferry services. No other country in the world does things as we do them in Scotland. Maybe that is a good thing and maybe it is a bad thing—I will allow the committee to judge that. Nonetheless, I do not think that unbundling would provide us with the answers that we need here.

I return to Ms Hyslop's observation in her question that the main challenge for the fleet just

now is resilience and reliability. How do we improve that? That is what I am absolutely focused on, as transport minister, at the current time. It is about bringing in extra tonnage where we are able to do that, making sure that there is the investment that Mr Kerr spoke about—we have done a lot of that work in the past year—and ensuring that passengers' lived experience of the network improves. It will need to improve markedly in the interim.

11:30

Fiona Hyslop: I have a final question. The current tripartite arrangement was established to comply with European Union law. Now that the United Kingdom has left the EU, can you set out whether the Scottish Government is free to redesign the delivery framework, or are you looking to maintain alignment with EU competition laws? There is also the potential that the original decision was a judgment call, and perhaps you can revisit how much alignment with the EU you would need to maintain. Basically, how much freedom do you have to take decisions that you want to take, or do you have one eye on making sure that we are not subject to any future—

Jenny Gilruth: Obviously, as a Scottish Government minister, I support rejoining the EU. Therefore, I would start from a tendency to support alignment to ensure that that process was streamlined.

However, despite the fact that we have left the EU, a lot of the legislation that was previously in place is now covered by the Subsidy Control Act 2022. It is not clear to me from the advice that I have had from officials whether we have the freedom to do things markedly differently from what was previously envisaged. However, some of that is legal advice that sits with the Scottish Government legal directorate. I am more than happy to take further advice on the matter, because the models that are proposed through project Neptune, which Angus Campbell is consulting on at the moment, will depend on Ms Hyslop's point about the model that was adopted back in 2006.

In terms of the structures, we need to test those principles with island communities, and that consultation is hugely important in that regard.

We are looking at whether the EU subsidy changes allow for more flexibility around the length of contracts. We would have proceeded with that issue even if we were still in the EU. There is potentially an opportunity to do things differently in that area.

In relation to the overall opportunities, I am not yet clear that we will be able to do things radically differently. Officials have been working with SGLD

colleagues on that and I expect to get advice on it later this year. That will coincide with Angus Campbell's consultation work and allow us to see the overall picture of what we are legally able to do.

Fiona Hyslop: It would be very helpful if you could update the committee on that—

Jenny Gilruth: I am happy to provide the committee with that.

Fiona Hyslop:—bearing in mind that you also have the issues that have already gone through in terms of alignment with the UK, and that the UK, also for reasons of trade with the EU, is fairly aligned with the EU in terms of subsidy issues. It will therefore be quite interesting to see how much scope there is even with the UK being outside the EU.

Jenny Gilruth: Absolutely. That is hugely important. I am more than happy to write to officials when I have that data and clarity from the SGLD and Transport Scotland.

The Convener: That might become quite relevant when we come to our report. We might have to prompt you, as we get to concluding the report, for any advice that you can give us.

Mark Ruskell wanted to ask some questions.

Mark Ruskell: I want to go back to a lived-experience issue that a number of islanders have told us about. Access to urgent last-minute ferry services is a particular frustration, whether it is needed for medical appointments or for another reason. Is there scope for Transport Scotland to change the contractual requirements so as to allow islanders more access to the vital lifeline services and slots that they need?

Jenny Gilruth: Yes, there is. I think that we have a couple of examples of where that has happened in recent times.

Both operators—today we are talking a lot about CalMac, but we must not forget Serco NorthLink—have mechanisms in place for prioritising medical appointments, which is really important. The point that Mr Ruskell makes about last-minute journeys is not lost on me. It is consistently raised with me when I go out and speak to island communities. It is worth pointing out that CalMac has—in very recent times, actually—agreed to some changes to the criteria for short-notice medical appointments, which I know has been welcomed by island communities.

Transport Scotland might want to say more on this, but it has been working very closely in the past couple of weeks with the Mull & Iona Ferry Committee to look at a potential pilot on vehicle deck space for islanders who are travelling at short notice. It is fair to say that that work is at a

pretty early stage but, from what I am told, it has been broadly welcomed by the Mull & Iona Ferry Committee. Officials might want to say more on that.

Chris Wilcock: We are also working with stakeholders from Coll and Tiree, including Kirsty MacFarlane, who has given evidence to the committee.

We are considering whether there is something that we can do about the timing of the release of deck space that might give greater favour to those who are looking to travel at short notice as opposed to those who are looking to book ahead—who, arguably, are typically people in the tourism market. I think that Angus Campbell said to the committee that there is no universal view on islander prioritisation or, as we categorise it, island essential travel, which can be for national health service staff coming on to an island, essential repairs or something along those lines.

Another thing has come out of work with that group, which has been really collaborative—I hope that the other side has felt that way as well. It has been said, “Here’s what we can do. We know that we want to go further, but what can we do within the confines of what we can do? What lessons can we learn?” From looking at two very different routes, it is emerging that there is maybe not one size that fits all for the whole network. The question is how we can vary things.

We are working with that group, and I hugely welcome the time that Joe Reade, Kirsty MacFarlane and others have given to us.

Mark Ruskell: That is in the context of current contractual arrangements. Is there a need to review those contractual arrangements, or is there enough flexibility within them?

Chris Wilcock: I go back to the point that was made in response to Mr Kerr. As I think you heard in some of the Norwegian examples, there are options for us to vary the contracts. As long as we are not changing the economic balance in favour of the operator, there are things that we can do and that we regularly do to change the contracts. For me, the issue is more what a workable and appropriate mechanism is that does not have unintended consequences. We find quite a lot that the challenges are the unintended consequences. We are currently working through that with communities, and I hope that we will learn lessons from that across the summer.

Jenny Gilruth: The committee will know well that not all island communities are the same. We need to be mindful in our policy development that they all have very different needs and that we should not try a one-size-fits-all policy, because that will not work.

CHFS3 also gives us an opportunity to do things differently, and there are definitely lessons that we will need to learn, particularly in relation to what CalMac has been able to come up with in quite recent times and how we will build things into the future contract.

Mark Ruskell: That sounds like a commonsense approach to need, which is important.

The Convener: To build on that question, we have heard from some islanders that they believe that the contracts are fairly strait-laced and cannot be changed and that, if there was evidence of the ability to change them, we would have seen that in lots of letters that suggest changes and changes to the contracts that have been approved. On that basis, we asked CalMac last week whether there was lots of evidence of contract changes, and it said that there were none that it had requested. I am now confused. You are saying that it is fleet of foot and that there is the ability to change, but CalMac says that it is not.

Chris Wilcock: We absolutely make changes to things such as the timetables. I think that your Norwegian witnesses gave examples of how quickly they can change such things. There is evidence of that from 2015 until now. We have done that across many routes. We set some criteria around that as a starting point. There are usually two primary criteria. The changes have to be practical and within the crewing hours and limits of possibility, and they cannot have a negative impact on another community, particularly where there is a shared vessel. Another issue is that they should be broadly cost neutral. A number of changes have been made since 2015 as part of the contract.

There have been other changes, which we cited earlier, such as bringing in new routes, such as Lochboisdale to Mallaig, and new services that were not previously operated by Transport Scotland through the contract. There are the Kerrera services and the Gourrock to Kilcreggan services, which were previously operated by Strathclyde Partnership for Transport. There have been a number of changes.

I wonder whether there has been something in the definition. I will revisit that question from CalMac, but there are certainly changes to the contract on a regular basis.

The Convener: Having heard from islanders that there were not changes, it would be helpful to the committee to be able to say that we have seen evidence of changes.

Just before the meeting last week, we got some information from CalMac. It gave reasons for cancelled sailings by cause. I did not understand what force majeure within its own control meant;

such a definition is completely beyond me. CalMac says that the Scottish Government approved the cancellation of 1,551 sailings last year but could not give a reason for that. Do you want to give a reason for that? If you are cancelling that amount of sailings, islanders may be a little concerned.

Chris Wilcock: First, Transport Scotland or the Scottish Government is certainly not voluntarily cancelling sailings. My understanding of CalMac's categorisation is that that is when we give it relief for known events, such as closures at Uig or other places, or when there is an outage of a vessel and CalMac cascades other vessels to provide relief. There are arrangements and agreements in the contract that allow certain changes, so I do not suggest by any means that those are down to my team phoning up CalMac to suggest that it cancels sailings. It is about my team asking whether there are legitimate elements whereby on a contractual basis those would not count in those statistics.

The Convener: Just to clarify, it cannot be mechanical problems with any of the ships, because CalMac said that only 1,678 mechanical problems cancelled sailings but that the Scottish Government approved the cancellation of 1,551 sailings. According to CalMac, you are carrying the can for that.

Chris Wilcock: There are circumstances when there are mechanical outages and CalMac cascades other vessels. We have arrangements in the contract to deal with that situation, and that may be what that refers to.

I think that Robbie Drummond said at last week's meeting that he would clarify some of those categories for you. I am not sure whether he has provided that further evidence.

The Convener: He has not. He offered to ring me and give me an explanation, which was not satisfactory to me. That information should have been given to the committee. I do not want to dwell on this too much longer, but you are carrying the can as far as I can see. CalMac talks about substitute vessels not being available for any other reason. All those are given as reasons, so it cannot be for those reasons. It would be useful if you exerted some pressure to say that you have not cancelled those sailings, because it may give the wrong impression that you have. Minister, I know that you would not want that on your shoulders.

Jenny Gilruth: No; quite.

Jackie Dunbar: We heard in previous evidence sessions that RET fares have created capacity problems on some routes during peak periods, and some island residents have called for lower islander fares and dynamic pricing for other travellers, as is used by rail and coach operators. What is your view on those suggestions?

Jenny Gilruth: Pricing of fares is regularly raised with me. RET has been successful, and since its introduction there has been a substantial increase in the number of vehicles and passengers travelling on the network. It is now more than 5 million; it certainly was in 2019, the last comparable pre-pandemic year.

It also true that RET has reduced the average fare by 34 per cent for passengers and 40 per cent for car traffic, which is important. As I mentioned in an earlier response, it saves travellers around £25 million a year. However, I am keen that we use the ICP to consult island communities on their views on dynamic pricing. It is a fair observation.

I read in the *Official Report* of the committee's previous evidence session that Mr Drummond, I think, was looking at that approach. As Ms Dunbar outlines, it is used in other transport sectors, so we need to be live to it.

I go back to my guiding principle from the start of the evidence session, which is that anything that we do next has to be informed by islanders' views. We will not foist something on island communities. If more dynamic pricing is what they would like and would opt for, which would move us away from the current structure, I am amenable to that.

Monica Lennon: My question is on a different topic. Will Scottish Government ferry services be carbon neutral by 2045, particularly given that CMAL is purchasing four marine oil-powered vessels with an expected lifespan of 30 years?

11:45

Jenny Gilruth: I heard some of the evidence on that issue at the tail end of the previous session. I reiterate what was outlined by Mr Hobbs and others. We want 30 per cent of the Scottish ferry fleet to consist of low-emission ferries by 2032. As, I think, you heard from Mr Hobbs, the small vessel replacement programme will aim to provide low-emission vessels that primarily use battery power and onshore charging technologies.

It is important to say that the new vessels for Islay will lead to a reduction in emissions. I think that that is due to the hull design, but Transport Scotland might want to say more about that.

The challenge relates to our larger vessels. Jim Anderson made the point that the technology is not quite there yet for our larger vessels. I know that CMAL is looking at a diesel-electric hybrid model for the Islay vessels and the additional two vessels for the Little Minch routes. That will allow CMAL to look at future battery technology in relation to those vessels.

I recognise that there is a challenge in getting to the target, but that absolutely remains the target.

As technology moves on, we will need to keep pace with it in order to reach the target, in line with our climate change aspirations and ambitions.

Monica Lennon: Is it your understanding that the vessels that I mentioned will remain in service for 30 years, or will—

Jenny Gilruth: I do not want them to be in service for 30 years. We want to reduce the average age of the fleet, so that is absolutely not my intention.

Monica Lennon: Okay. What are the plans to mitigate the emissions that are created?

Jenny Gilruth: Obviously, CMAL will look at mitigation in that regard. There is a solution for the small vessel fleet, which relates to batteries, but it is true that there are more challenges with larger vessels. We now have LNG for vessels 801 and 802. I think that Jim Anderson described that as a transition fuel. We need to think about how we will provide, in the future, cleaner ferries that meet our net zero aspirations. That applies particularly to larger vessels, because the technology for them is just not there yet. We need to keep pace with the technology. That goes back to the point that Ms Lennon made about experts. We need to engage with experts and academics to ensure that we are abreast of all the latest developments and that CMAL has the relevant data to ensure that the design spec keeps pace with those developments.

My officials might want to say more about the specifics.

Laurence Kenney: As Jim Anderson alluded to in the previous session, the design of the new Islay vessels means that there will be a significant reduction in emissions. The ferries use relatively conventional propulsion technology, but the hulls have been designed differently.

I flag up to the committee that the draft plan that we have published includes a chapter on reducing emissions across the fleet. As we take forward the islands connectivity plan, we will explore that area in much more detail and try to identify the pathways that will get us to net zero by 2045. I am happy to provide more updates on that.

I will give another example of work that is already happening. When a vessel is in port overnight, it will potentially draw power from its engine, so we are moving to power that from electricity from the shore. In Stromness, on Orkney, that is in place for the MV Hamnavoe, which is being powered overnight, machine-free, in the harbour. We will look to roll that out more widely.

Monica Lennon: Thank you.

Jackie Dunbar: We have heard that ferry journeys are often not the start of folk's journeys.

Most of the time, they tend to use their car to get to the ferry or for onward travel. What is being done to reduce the need for folk—both island residents and visitors—to travel by car? What transport integration is currently being considered? Might it be possible to develop shared mobility hubs at harbours?

Jenny Gilruth: That is under consideration. As I outlined in my response to Mr Ruskell, a key part of the ICP will be the chapter on onward and connecting travel. We are looking for that to be completed internally in the first half of 2023, and there will then be stakeholder engagement.

Ms Dunbar is absolutely right that we need to ensure that there are more joined-up approaches to our broader transport network. There are already great examples of that in the transport network. I was in discussions with officials about that very point yesterday. In places such as Oban, for example, there is fantastic connectivity between ferry and rail, but that does not exist everywhere. We have that in other parts of the network, but we need to consider where we can build in opportunities to connect people's journeys, because otherwise we are never going to facilitate the modal shift to get people out of their cars.

In response to Ms Lennon's question about our net zero targets, we know that the transport sector is a significant contributor to our emissions, and we absolutely recognise the need to join things up better, whether that be through shared hubs or other approaches that exist in other parts of Scotland.

Jackie Dunbar: Thank you.

The Convener: We will go back to Monica Lennon for another question.

Monica Lennon: You are very generous, convener. Thank you.

The committee has heard in evidence that CalMac Ferries seafarers are employed through a wholly owned subsidiary that is based in Jersey. We have heard that that arrangement offers tax advantages. Will that arrangement continue, even if a direct award is made to CalMac Ferries?

Jenny Gilruth: I very much recognise the challenge to the Government there. The existing arrangements are historical—they have been in place for a number of years, as Ms Lennon will know. The Government will need to look at that, although I have not been presented with any suggestions on how we might change that arrangement at the current time. However, that is something that we will need to consider.

I have recently heard from other members on that point. That is a convention that has existed historically, but we will need to look at that in the longer term.

Monica Lennon: Okay. In your view, is that an appropriate model for a nationalised company?

Jenny Gilruth: I am not necessarily sure that it is.

Monica Lennon: So you are not comfortable with that arrangement.

Jenny Gilruth: I am not necessarily sure that it is appropriate. That has been the model historically, and I, as the minister, have not yet had evidence to the contrary to provide me with a range of options. Monica Lennon will accept that I, as the minister, would expect to receive advice on that. I have not yet had that advice, but I am not necessarily convinced that that is the most appropriate model.

Monica Lennon: Okay. So you have asked for that advice. Is such an arrangement common across Government? Are there other examples?

Jenny Gilruth: In my experience in three different roles in Government, I cannot think of another example. However, I might be wrong about that. Other examples might exist in other ministers' portfolios.

The Convener: For clarity—I think that Liam Kerr has asked about this before—the issue is that national insurance does not have to be paid, which means that the Government employs people without paying national insurance. I think that that is the issue that you are being asked to justify, minister.

Chris Wilcock is trying to catch your eye—you might not want him to.

Jenny Gilruth: I am happy for Chris Wilcock to come in.

Monica Lennon: Before he does, it was helpful to hear that you have asked for further advice on that. We would be interested to know whether there are other examples, so could that information be fed back to the committee in writing?

Jenny Gilruth: I would be happy to do that.

The Convener: Liam Kerr wants to come in.

Liam Kerr: Yes. I have a brief question about something that came out of the earlier session. When you were watching that session, minister, I am sure that you heard that CMAL did not stipulate in the contract for the new ferries in Turkey that, where possible, the Scottish and/or UK supply chain should be used. Would the Scottish Government have preferred to see that clause in the contract? Would it prefer to see such clauses used in the future? If so, have you indicated that to CMAL?

Jenny Gilruth: The member has asked a fair question. On the vessels that have been procured and are being built in Turkey, that was a free and open competition, and we could not dictate such terms in that competition. I am prepared to be wrong about that—I am looking at officials in case they are going to correct me. We could not dictate in that competition where the award was made, because it was an open competition.

The point about the supply chain issue is well made. As far as I understand it, there will be benefits to the UK supply chain in relation to the vessels that are being built in Turkey.

Chris Wilcock: I am not sure what scope we would have had to be very specific on that point. I understand from CMAL that quite significant elements of the supply chain for all four vessels are based in the UK. I have asked CMAL to provide some further material on that so that we can share that information publicly, because I think that it is important to do so.

As members know, more generally, shipping and shipbuilding are pretty international operations, so it would be good for us to understand that aspect. We will share that information when we get it.

Liam Kerr: I would be very grateful for that.

I understand the point that is being made and I accept, minister, that, if it was an open tendering process, that is fine. However, at some point, a decision was made. As I understand it, the contract is a standard Baltic and International Maritime Council one. I presume that, at some point, CMAL could have said as part of the negotiation that it wished to add a clause that said that, wherever possible, the yard would use the UK or Scottish supply chain. It has not done that. As a Government minister, would you have preferred that it had? In any event, when other procurement exercises take place, would you prefer CMAL to stipulate, as part of the contract negotiations, that UK and/or Scottish supply chains need to be used?

Jenny Gilruth: I think that the response that you heard from Chris Wilcock was that we are not quite clear about whether that could be stipulated within the scope. I would want to clarify that with CMAL in the first instance.

I support the overall point that Mr Kerr has made about providing Scottish jobs from Government investment, but I am not clear about whether it was possible for CMAL to stipulate that within that contractual agreement. If you do not mind, convener, I will therefore seek clarity from CMAL on that point. I would be happy to write to the committee on the detail.

Chris Wilcock might want to come in on that.

Chris Wilcock: That is very much a question for CMAL, but a recent comparator would be the Northern Lighthouse Board's new vessel, which is being built in Spain. I am not sure whether this could have been negotiated in the BIMCO space, because it would probably have been covered more by the procurement rules—again, that is probably straying outside my area of expertise—but there was some sort of clause in there about UK-based firms having the ability to bid for contracts that were over a certain value, although I do not think that that was necessarily a guarantee.

We will take that away to see what further detail we can give on what the options might have been and what the actual consequences have been of contracts that have been placed in the UK as part of the supply chain.

Liam Kerr: I would be very grateful for that.

The Convener: It would also be helpful to clarify what the future policy on that will be, because this is about looking forward.

As no other committee member wants to ask a question, my question at the end is to you, minister. I have mentioned a couple of times the REC Committee report from the previous session. I have to admit that I am heavily invested in that.

Jenny Gilruth: I recall.

The Convener: Just to remind you, under “Decision-making structure”, about which the report makes recommendations, it talks about

“a cluttered decision-making landscape that lacks transparency ... varying degrees of failure”

and

“CMAL ... and Transport Scotland”

failing

“to discharge their respective responsibilities competently and effectively.”

That is fairly damning.

I want to find out whether you are comfortable with the process. Let me see whether I can do this by interpreting the jargon. The end user—the passenger—feeds into the service provider, which is the ferry operator, which feeds into the asset provider, which is CMAL, which feeds into the Government through Transport Scotland: you have told us that the two are the same. Transport Scotland feeds back to CMAL, which then stipulates what the ferry contract is going to be, as far as building the ship is concerned.

That is hardly working together. Are you comfortable with that process?

Jenny Gilruth: No, I am not comfortable with it. In my statement to the Parliament back in September last year, I provided an update on

project Neptune, which is looking at that issue in much more detail and at the tripartite arrangements between the three organisations.

I think that you heard from Mr Hobbs in the previous session that there has been good collaborative working between Transport Scotland, CMAL and CalMac in recent times. I think that that has improved, certainly in the time during which I have been the transport minister. However, we need to do more.

The convener has pretty succinctly outlined some of the challenges that passengers experience in relation to services. Project Neptune is looking at a range of options—for example, whether to amalgamate organisations or bring things in-house, as Ms Hyslop alluded to—but we need to move forward now.

Obviously, the REC Committee inquiry was last session, and we have had a number of different reports since then. However, a common theme relates to governance. Therefore, while my mind as the transport minister is fixed on improving resilience and capacity in the current fleet, I also need to make sure that the structures that are in place deliver what passengers need, and I am not yet sure that that is where we are. That is exactly why project Neptune is vital. Angus Campbell's work in that regard will be key in delivering the improvements that are needed.

12:00

The Convener: When we have what I would call an urgent operational requirement to get more ferries serving the islands as soon as possible, we need to shorten the chain of decision making so that who operates the asset controls what the asset is. It has been my experience in life—as I am sure that it has been yours, minister—that, if you tell someone what they are going to use but that is not what they want, that will never be satisfactory or competent to complete the job.

My final question is: are you still open to CMAL being absorbed into CalMac, as the REC Committee suggested, so that there is a seamless process for requirement, design and supervision of the build?

Jenny Gilruth: That is one of the recommendations from project Neptune. There are a number of other recommendations about how the tripartite process might look in future. I am not wedded to any one concept. As the minister, my view, informed by my experience, is that something will have to change pretty radically.

If CMAL were to be absorbed into CalMac—you alluded to that—that would create a challenge in relation to Serco NorthLink Ferries. We would

need to be mindful of that. A number of other factors would play into that, too.

As the minister, my view is that there is no point in my changing the governance structures unless that is what island communities want. I go back to my original point in answer to Mr Ruskell's question. I will not foist something on island communities that they do not want.

If I ask island communities tomorrow what they would like to see, they will not talk to me about governance structures; rather, they will talk to me about better reliability, more boats and more sailings. Fixing the here and now is vital.

I accept that there is also a governance challenge, but the more pressing issues that island communities face relate to the delivery of services. That is why it is really important that the current arrangements work for island communities. Work is on-going, and I am clear that things will need to change in the future if we are to listen to island communities and reach an optimal solution.

As you have outlined, convener, the current structure is not dynamic at times, and it is not as reflective and responsive as it needs to be. We need to reach that point in order to better serve our island communities.

The Convener: That is probably a good place to leave it.

We thank you and your officials very much for giving evidence, minister. I will briefly suspend the meeting to allow for a change of witnesses.

12:02

Meeting suspended.

12:05

On resuming—

Subordinate Legislation

National Bus Travel Concession Schemes (Miscellaneous Amendments) (Scotland) Order 2023 [Draft]

The Convener: Welcome back, everyone. Item 5 is consideration of a second draft statutory instrument. For this item, I welcome back Jenny Gilruth, the Minister for Transport. I also welcome Gary McIntyre, economic adviser, and Debbie Walker, operations and business manager at Transport Scotland.

The instrument is laid under the affirmative procedure, which means that the Parliament must approve it before it comes into force. At the next agenda item, following this evidence session, the committee will be invited to consider a motion to approve the instrument. I remind everyone that officials can speak under this item but not in the debate that follows.

Minister, I believe that you would like to make a brief opening statement.

Jenny Gilruth: Good afternoon, and thank you for inviting me to discuss the draft order.

The order sets the reimbursement rate and the capped level of funding for the national bus concession scheme for older and disabled persons in 2023-24. It also sets the reimbursement rate for the national bus travel concession scheme for young persons in the coming financial year. In doing so, the order gives effect to an agreement that we reached back in December with the Confederation of Passenger Transport Scotland, which represents Scottish bus operators.

The objective of the order is to enable operators to continue to be reimbursed for journeys that are made under the older and disabled persons and the young persons schemes after the expiry of the current reimbursement provisions on 31 March. It specifies the reimbursement rates for both schemes and the capped level of funding for the older and disabled persons scheme for the next financial year, from 1 April 2023 to 31 March 2024.

The order is limited to the coming year and is undertaken on an annual basis to support both schemes. Because of the on-going impact of Covid-19 on bus passenger numbers and the continuing uncertainty for the coming year, it has not been possible to undertake the analysis and forecasting that usually underpins the annual revision of the reimbursement rates for the older and disabled persons scheme. In addition, only a limited amount of data is available for the young

persons scheme, which became operational in January last year. Accordingly, the reimbursement models for both schemes could not be used with confidence for 2023-24.

I have agreed with CPT that the reimbursement rate for the older and disabled persons and the young persons schemes for 2023-24 will be retained for the current year. For the older and disabled persons scheme, it is set at 55.9 per cent of the adult single fare and the capped level of funding will be £216.2 million. That is set at a realistic level that takes into account patronage levels in the scheme since Covid-19. For the young persons scheme, the proposed reimbursement rates are 43.6 per cent of the adult fare for journeys made by passengers aged five to 15, and 81.2 per cent for journeys made by those aged 16 to 21. As for the past year, a budget cap is not being set for the young persons scheme in 2023-24.

I believe that the rates are consistent with the aim that was set out in the legislation establishing both schemes, that bus operators should be no better and no worse off as a result of participating in the schemes. Nonetheless, the rates will provide a welcome degree of stability for bus operators.

Free bus travel enables people to access local services and gain from the health benefits of a more active lifestyle. It also helps to strengthen our response to the climate emergency. The order provides for those benefits to continue for a further year on a basis that is fair to operators and affordable for taxpayers.

I commend the order to the committee and am happy to answer any questions.

Mark Ruskell: The under-22s bus scheme has been quite remarkable over the past year. I have seen in my own family and the wider school community how young people are now using bus services in a very different way. I am also seeing that feed back into services with far more people on bus services now than was the case before Covid.

I suppose that we do not have that story in front of us just now. We have some pretty raw figures that are impressive in terms of the number of journeys and how patronage has increased.

Will Transport Scotland do an evaluation of that part of the concessionary travel scheme, because it seems to me that there is a lot to bring out there? It would be worth evaluating that and for Parliament to be able to understand the positive economic impacts and the impact not only on services but on young people's confidence.

Jenny Gilruth: Mr Ruskell makes a number of important points. If I am honest, the scheme

started off with a number of challenges. You may recall that I was first appointed at the time of the onset of the omicron variant of Covid and that there were challenges in relation to the application process. I worked with the Improvement Service, which we had appointed to run the scheme on behalf of the Scottish ministers to improve and streamline the application process. That was important, because it helped to increase the number of applicants, as did the marketing campaign that we launched later in the year.

As Mr Ruskell said, there have been more than 45 million journeys, and 62 per cent of the children and young people who are eligible are benefiting—I would like that number to be higher, incidentally. I receive regular updates from Transport Scotland, which show the national picture and give me a granular breakdown at local authority level.

It is fair to say that some local authorities are doing better than others, so I have asked my officials in Transport Scotland to work with local authorities that might be struggling with the sign-up to ensure that they are using all the opportunities at their disposal. For example, young people do not have to apply online; they can apply via their local authority. There is also the schools accelerated process, which is used by certain local authorities. I will pick on Glasgow City Council, which used the schools accelerated process in a really dynamic way that allowed it to increase uptake right at the start of the scheme, which was very welcome.

In relation to the evaluation that Mr Ruskell asked about, there will be a one-year evaluation of the scheme, which I think will begin in April this year. It will look not only at the data that Mr Ruskell has outlined but at the change in young people's travel habits. We are really changing the next generation's approach to travelling by bus, which is transformative and hugely important. It is therefore important that we get that data, and I would be more than happy to share the data with committee members when the evaluation is complete.

Mark Ruskell: It is really welcome that there will be an evaluation. It is important that the evaluation is qualitative as well as quantitative. A lot of really impressive figures are being bandied about—the 45 million journeys, and the hundreds of thousands of young people who are joining the scheme—but what lies underneath that? What I am seeing is a massive improvement in the confidence and independence of young people. I do not think that anybody really predicted that when the scheme was first discussed. I wonder whether any evaluation will also look behind the numbers at the impact on young people, and on families and communities, because it feels as

though there is a story there that is not really being told.

Jenny Gilruth: Mr Ruskell is absolutely right. I see my officials nodding beside me, so I am sure that we will be looking at the qualitative feedback. Such feedback is vital in telling the story of the success of the scheme, because it is not just about facts and figures but how the scheme is changing young people's lives and their approach to engaging with our transport networks. That is really key, so we will certainly take that away as an action point, although it will probably be captured in the planned evaluation.

The other issue is that the scheme has been a huge help in relation to the cost of living crisis. The scheme is not just about free bus travel; it is providing families with a level of protection and support, and it is important that we reflect that. We need to build some of that into our quantitative analysis, as Mr Ruskell has alluded to.

The Convener: A series of questions is stacking up. I will take a question from Monica Lennon, followed by one from Liam Kerr.

Monica Lennon: I will come back to the numbers briefly. I appreciate that there is not yet a year of data for the young persons scheme, but the estimated cost of reimbursement is around £189.5 million. How did officials arrive at that figure, and does the Government expect to set a cap for future years?

Jenny Gilruth: I think that we will expect to set a cap for future years. I get regular updates from my officials in Transport Scotland that look at patronage across the transport network—on rail, bus and road. Obviously, unfortunately, road use has returned to where we were prior to the pandemic. Rail and bus patronage remain depressed—I think that the level sits at between 60 per cent and 70 per cent for both—so there is a challenge with regard to the forecasting that Transport Scotland was able to carry out and, to be blunt, that it has been able to carry out for two-and-a-bit years. Therefore, in relation to Ms Lennon's question, yes, in future years, we absolutely will have to reintroduce a cap.

There is no cap for the young persons scheme this year, and there was not one last year, because of uncertainty and because we did not yet have the data to measure it against. I think that we now have a full year of data, but we need a bigger data set to measure it against in the future. However, it is a fair point, and we need to look at that.

12:15

It is worth saying that Transport Scotland is looking at providing an evaluation specifically on

the approach that we take to the cap and the reimbursement rate. The approach that we take has been used since 2013; it is an agreed economic model. Gary McIntyre might want to say a bit more about the calculation. It was agreed with bus operators, which is important, and the approach ensures that they are neither better off nor worse off as a result of the reimbursement rate that is set.

Perhaps Gary McIntyre or Debbie Walker would like to provide more information.

The Convener: Before they do, I note that, yesterday, I read a figure in the press that suggested that the young persons scheme will cost £300 million. Perhaps you could comment on whether that is ridiculous or reasonable. I have no view.

Jenny Gilruth: I read the same story and I was surprised by it. My officials are of the view that the story in question has taken the actual spend to date for the young persons scheme, which is just over £93 million, and added the forecast spend for 2023-24 that was included in the business and regulatory impact assessment, which is £189.5 million—the figure that Ms Lennon alluded to, I think. The actual spend to date figure was published back in February in a freedom of information response. We think that, in the story, they have added the two together, which is incorrect.

The Convener: Thank you for clarifying.

Jenny Gilruth: I was not asked for comment on the story, so I am glad that I have now got that on the record.

The Convener: It is good that we have clarified that. Sorry, Gary, I think that I cut you off in mid-flow.

Gary McIntyre (Transport Scotland): That is okay. My comment was just in response to the £189.5 million figure that was mentioned. It is an upper estimate of the forecast costs for the young persons scheme in the next financial year. There is a range of uncertainty in that, because we are unsure where demand levels will be next year. It is the upper range that, with CPT, was agreed to be sensible. It is based on where we have seen demand grow to date and where we expect it to grow next year.

Monica Lennon: That was helpful. I have a final question. I was interested to hear the enthusiastic exchange between the minister and Mark Ruskell about the merits of the scheme. Minister, are you actively looking at the benefits of extending the young persons scheme to under-25s?

Jenny Gilruth: That was considered in a review that we carried out for under-26s. There is a piece of work that looked at that very issue on the

Transport Scotland website. I think that we might have worked with the Scottish Youth Parliament on it, too, but that pre-dates my time in office.

It was considered, but I will be honest with Ms Lennon that, as a Government, we would not currently be in a financial position to fund it. The scheme is extremely costly—according to some news reports, more so than it actually is. I think that the scheme's costs are worth it, but the financials that would be involved in extending it to people under 25 would be excessive under the current budget pressures that the Scottish Government faces.

Liam Kerr: I was interested in Mark Ruskell's questions, in response to which you said that there will be an examination of how the scheme is operating. Can you reassure me that that will also examine the uptake and usage of the scheme in rural areas, as distinct from urban areas, and particularly in areas where bus provision is more patchy and/or where there is rural poverty, so that we can ensure that the scheme is operating fairly and equitably across the whole country?

Jenny Gilruth: Mr Kerr hits on an important point. I spent a lot of time over the summer recess meeting operators. If you meet representatives of the likes of Stagecoach and FirstBus, you get very different feedback to what you get from smaller operators who are, arguably, experiencing much more challenging times at the moment. I am mindful of that, particularly in rural areas, where people might not have access to, for example, the rail network. It is really important that bus services are maintained in areas where the rail network is not able to extend.

I might bring in officials on the specifics of the question. If that issue is not already being considered in the evaluation, I will request that it is, because Mr Kerr makes an important point. Operators are currently dealing with a range of factors and challenges such as driver shortages and the cost of fuel, so one of the reasons why I have convened the bus task force is to get folk round the table to come up with solutions to move us forward. The evaluation will give us an opportunity to ensure that we have the data from rural areas, which is particularly important in relation to Mr Kerr's point about poverty.

Fiona Hyslop: Just very briefly, on that point, my constituency is in the West Lothian area. It has had poor take up, which might reflect the fact that it is a semi-rural area. You can get from east to west on a train, but trying to get from north to south, taking timing into account, is different. My young constituents say: "What is the point of having the bus pass when I can't use it?". That kind of forecasting will have to take place, so my appeal is that you do not look only at rural areas, because there are some very central semi-rural

areas—I expect that Lanarkshire might be similar—that should be specifically examined.

Jenny Gilruth: The deputy convener makes a really good point. As I mentioned in the first response that I gave to Mark Ruskell, I get regular updates in relation to regional differences in different constituencies in Scotland. The pattern is that we do not necessarily look only at rural areas, because there are challenges in different parts of the country for different reasons. It is important that we take an intuitive approach to the implementation of the policy. I take on board the deputy convener's point and will ensure that that is fed into the evaluation that Transport Scotland will conduct in April.

The Convener: It would be wrong, then, based on what the deputy convener has said, to ask about what we have heard from a lot of people, as the minister will have. They say that ferries are their buses and that people under the age of 22 should perhaps be considered for concessionary travel on ferries, as well as buses. No doubt that will be in the order next year, but that is not the question that I want to ask. Do you think that the budget of £216 million for the older and disabled persons scheme will be met, by which I mean will there be a greater demand for that, or will it not reach that level of claim?

Jenny Gilruth: The budget should be sufficient, based on the modelling. It assumes that patronage levels will recover to 80 per cent of what they were prior to the pandemic, so it is dependent on passenger behaviour, bluntly, but that would certainly measure up with what officials have forecast in relation to people returning to bus.

The other thing to reflect on is that people's travel habits have dramatically changed, so this is not only about bringing people back to public transport. Some people do not go to a workplace anymore; they work from home. That has changed the nature of public transport in Scotland. However, I think that we are still in a bit of a pre-pandemic cycle, whereby the delivery model that we currently have across public transport networks reflects provision that existed prior to the pandemic. We need to think again about some of our delivery models when people are often working from home during the week, because that changes what the patronage uptick is. In answer to your question, the budget should be sufficient but it assumes an 80 per cent return of patronage.

The Convener: Perfect. Thank you. As there are no more questions, I move to the next item on the agenda, which is formal consideration of motion S6M-07689. I invite the minister to move the motion.

Motion moved,

That the Net Zero, Energy and Transport Committee recommends that the National Bus Travel Concession Schemes (Miscellaneous Amendments) (Scotland) Order 2023 [draft] be approved.—[*Jenny Gilruth*]

Motion agreed to.

The Convener: The committee will report on the outcome of the instrument in due course. Does the committee agree to delegate authority to me, as convener, to finalise the report for publication?

Members *indicated agreement.*

The Convener: Thank you, minister, and thank you to your officials.

12:23

Meeting continued in private until 12:32.

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