

TRANSPORT AND INFRASTRUCTURE COMMITTEE: 6 SEPTEMBER 2011

ORKNEY FERRIES LIMITED – TARIFF REVIEW

REPORT BY CHIEF EXECUTIVE

1. PURPOSE OF REPORT

- 1.1 To consider options for a revised tariff structure and booking/ticketing system for the internal ferry services provided by Orkney Ferries Limited for public consultation purposes.

2. RECOMMENDATIONS

The Committee is invited to note:

- 2.1 that, on 24 May 2011, the Board of Orkney Ferries Limited provided feedback on the draft report undertaken by Spyria in respect of the tariff review;
- 2.2 that baseline data for financial year 2010/11 has been obtained, utilising data from the booking system operated by Orkney Ferries Limited, in order to guide development of alternative tariff models;
- 2.3 that, based on the principles agreed by Council and using the baseline data referred to at paragraph 2.2 above, a number of alternative models have been developed, as detailed in Appendices 2 to 4 of this report; and
- 2.4 that Maxima, the company who provide and support the booking and ticketing system operated by Orkney Ferries Limited, has been contacted to determine the feasibility of developing online booking and additional ticket types.

It is recommended:

- 2.5 that the Chief Executive should investigate costs and timescales for the introduction of a booking and ticketing system incorporating smart card technologies;
- 2.6 that testing of the online booking and ticketing system, currently operated by Orkney Ferries Limited, continue;
- 2.7 that the proposed tariff structures, referred to at paragraph 2.3 above, be approved for public consultation; and
- 2.8 that the Chief Executive should submit a report, to a meeting of the committee to be held no later February 2012, on the outcome of the public consultation referred to at paragraph 2.7 above.

3. POLICY ASPECTS

- 3.1 Provision of transport links to the islands progresses the Council's declared key priorities of sustainable communities and transport networks.

- 3.2 They also assist in promoting the undernoted Council values:
- 3.2.1 **promoting survival** – to support our growing communities
 - 3.2.2 **promoting sustainability** – to make sure economic, environmental and social factors are balanced
 - 3.2.3 **promoting equality** – to encourage services to provide equal opportunities for everyone
 - 3.2.4 **working with communities** – to involve community councils, community groups, voluntary groups and individuals in the process

4. **INTRODUCTION**

- 4.1 At its meeting held on 12 April 2011, the Transport and Infrastructure Committee noted:-
- 4.1.1 that Spyrria Partnership had presented an update on the review of the tariff structure, detailing outline appraisals for a number of options, together with recommendations;
 - 4.1.2 the proposal that the tariff structure for the internal ferry services should:-
 - 4.1.2.1 achieve fairness, consistency and openness in terms of availability of tariffs;
 - 4.1.2.2 assist in addressing social exclusion to islands communities; and
 - 4.1.2.3 assist in promoting social and economic development;
 - 4.1.3 the proposal that a revised tariff structure should address the undernoted historic anomalies:-
 - 4.1.3.1 the Council establishing inter-island fares;
 - 4.1.3.2 junior discounted at point of use – juniors charged at discount rate rather than requiring purchase of multi-journey tickets;
 - 4.1.3.3 discount through Economic Development for consignors – targeted support to support business development;
 - 4.1.3.4 Orkney students – discounts available to full-time students;
 - 4.1.3.5 commuter passes – full-time and part-time commuter tickets;
 - 4.1.3.6 mobile homes as per domestic – charges to reflect price per metre for domestic users; and
 - 4.1.3.7 motorcycle in line with deck space used – charges $\frac{1}{4}$ of the equivalent car rate; and
 - 4.1.4 the proposal that the revised financial models for a tariff structure should incorporate the following principles:-

- 4.1.4.1 a more simplified tariff structure;
- 4.1.4.2 any alterations recommended to the current structure being cost neutral to the Council;
- 4.1.4.3 inner isles tariffs being set at 50% of Outer North Isles (ONI) tariffs;
- 4.1.4.4 a fixed rate per metre for commercial and domestic traffic;
- 4.1.4.5 future discounts for passenger travel and commercial traffic being made available to all on a per usage basis;
- 4.1.4.6 only return fares being available on outbound journeys from the Orkney Mainland;
- 4.1.4.7 lift on-lift off (lo-lo) tariffs being reviewed to ensure consistency and reducing the cost of administration of small payments;
- 4.1.4.8 investigating the feasibility of introducing a direct debit scheme for the purchase of multi journey tickets; and
- 4.1.4.9 all concessions being withdrawn and the Council establishing a Local Concessionary Travel Scheme with eligibility restricted to Orkney residents.

4.2 The Committee recommended:-

- 4.2.1 that the Council should consult with the Board of Orkney Ferries Limited and island community councils on the principles referred to at paragraph 4.1.4 above, together with the operational implications of a revised tariff structure which should include the following:-
 - 4.2.1.1 implications to the management and back office functions;
 - 4.2.1.2 implications to the cashflow of the company;
 - 4.2.1.3 impact of the ticketing workload as a result of any changes for sea staff;
 - 4.2.1.4 ensuring adequate systems were in place to collect fares and evidence entitlement to concessions;
 - 4.2.1.5 ease for users;
 - 4.2.1.6 consideration of development of tourist products;
 - 4.2.1.7 suitability of the current ticketing IT systems;
 - 4.2.1.8 any further recommendations arising from the Board; and

4.2.1.9 consideration of a yield management structure for peak and off peak services; and

4.2.2 that the Chief Executive should submit a report, to the meeting of the Committee to be held on 8 November 2011, detailing the outcome of the consultation, referred to at paragraph 4.2.1 above, together with revised financial models for a tariff structure addressing the historic anomalies and incorporating the principles referred to at paragraphs 4.1.3 and 4.1.4 above respectively.

5. BOARD OF ORKNEY FERRIES LIMITED

5.1 The consultants and Council officers met the Board of Orkney Ferries on 24 May 2011 to obtain the Board's views on the draft report of the tariff review undertaken by Spyria. There were no significant issues raised by the Board.

6. REVISED TARIFF OPTIONS

6.1 It was noted previously that Spyria had developed recommendations based on a limited sample of ferries' data to form the basis of their recommendations. It was acknowledged that sampling can lead to bias therefore further work was undertaken to establish actual figures of income by tariff for financial year 2010/11.

6.2 The baseline model provides accurate information of carryings by type and the income generated split between the inner and outer isles. The table below provides a summary of the carryings and income split between the inner and outer islands.

	Outer Isles (carryings)	Outer Isles (£)	Inner Isles (carryings)	Inner Isles (£)
Passengers	106,853	548,126	224,927	522,668
Cars	21,448	288,185	36,823	302,543
Commercials	5,115	152,749	7,489	144,986
Hauliers 50% disc	5,044	102,277	3,649	54,639
Hauliers 25% disc	438	22,349	1,877	61,936
Tractor trailers	3,231	64,230	15,538	42,542
Total		1,177,916		1,129,314

6.3 The baseline model was used to develop alternative financial models incorporating the principles referred to at sections 4.1.3 and 4.1.4 above.

6.4 The Council has resolved that a revised tariff structure is built around three specific aims which are detailed in the following sections.

7. REMOVING ANOMALIES

7.1 Using the principle that deck space is charged based on the area used motorbikes should be charged 0.5 of an equivalent 5 metre deck space and motor homes based on length (with an additional supplement for vehicles wider than 2.6 metres)..

- 7.2 Larger 4 x 4 domestic vehicles are charged at the standard 5 metre rate but can exceed 5 metres. Consideration should be given to implementing a 5.5 metre charge for larger domestic vehicles.
- 7.3 The current tariff structure provides a 50% discount for disabled and free travel for registered blind passengers. It is proposed that a single adult price be introduced.
- 7.4 Removal of Sunday excursion fares to the outer north isles.
- 7.5 Students are charged the same tariff as juniors however it can be problematic for the purser to determine student eligibility
- 7.6 Party/multiple booking and travel agent discounts are available to certain groups. It is suggested that this be removed.
- 7.7 Wide loads are not currently published in the fare structure. It is proposed that loads exceeding 2.6 metres continue to be charged by length + 50% and that the surcharge be published.
- 7.8 A separate commercial rate is applied to the haulage of stone chips to the outer islands. It is proposed that this be removed.
- 7.9 Currently drop trailers are charged at the standard commercial metre rate. Drop trailers leave unusable deck space of approximately 3 metres. It is proposed that a surcharge be introduced to reflect this.

8. CONCESSIONAIRES

- 8.1 Orkney Ferries currently offer a 50% fare concession to senior citizens, registered disabled and students/juniors and free travel for the registered blind. This is available for all eligible passengers regardless of residency.
- 8.2 The Council currently funds concessions for ferry users through reduced tariffs to particular groups. In addition the Council funds a local concessionary travel scheme which provides residents in the isles, who are eligible for the Scotland-wide Free Bus Scheme, to 24 single passenger ferry trips. The Council provides additional support of 24 single vehicle trips for passengers on the higher rate of the Disability Living Allowance or Attendance Allowance and 24 single passenger trips for a companion for those on the middle or higher rate of the care component of Disability Living Allowance or Attendance Allowance, with the exception of Papay Westray and North Ronaldsay where flights are provided.
- 8.3 In reviewing the tariff structure, consideration could be given to removing certain concessions from published fares and establishing a local scheme. Such a scheme could be more specifically targeted to meet the Council's objectives. In practice this could be delivered by means of a local travel scheme providing discounts on published fares and/or free journeys to eligible residents. The introduction of smart card technology would assist the Council in delivering such a scheme.

9. COMMERCIALS

- 9.1 All commercial traffic is charged a standard 5 metre rate with an additional charge per half metre. The half metre supplement is charged on the basis of a graduating increase. The current tariff structure sets the 5 metre charge relatively low with increments set much higher. Put more simply for a 10 metre vehicle the first 5 metres are charged at a significantly lower rate than the last 5 metres. Consideration should be given to implementing vehicle tariffs based on a linear increase based on the area of deck space used with an additional surcharge for wider loads.
- 9.2 The current tariff provides a 60% discount on the commercial tariff for tractors with trailers attached. This has been subject to criticism and it could be argued that it offers a disproportionate benefit to a few.
- 9.3 It is proposed that in future, commercial discounts be offered only to account holders based on the area of deck space used. There are two methods by which this could be achieved: based on a number of journeys undertaken or the total number of metres used in a determined period.

10. DISCOUNTING

- 10.1 Most passengers are able to obtain discounts through bulk purchasing in advance. Multiple journey books of tickets are available which offer a discount of between 25% and 50% on the standard tariff. The availability of multi-journey tickets is not widely advertised. Multi-journey tickets provide a benefit to both users of the service and the ferry company. They are paid for in advance and reduce the workload for both the onboard purser and shore based office staff. However, books of tickets can be expensive for many to purchase in advance. Whilst multi-journey tickets can be purchased for a family of adult passengers, junior tickets are allocated to a particular child.
- 10.2 With the shorter journey times and more frequent services provided on the inner isles routes, it is possible to travel on a daily basis to work. Introduction of a commuter pass would be viewed as a positive move to encourage individuals and families to reside in the isles. Offering unlimited travel on either the inner or outer isles routes, a commuter pass could provide a mechanism to discount travel for regular users of a service. Passes could be made available on a monthly or annual basis either part or full time. Full time passes would provide free unlimited passenger travel on either all inner or outer island routes. Part time passes could operate on the basis of a weekly maximum number of journeys, again either for the inner or outer isles and hence provide a benefit particularly for those in part-time work or study.
- 10.3 The full time commuter pass is more likely to be attractive to those travelling between the inner isles where it is more practical to commute. . Continuing discounting passenger fares through multi-journey ticketing options provides a range of options for those undertaking longer journeys where commuting is less practical and to residents undertaking less scheduled travel.

11. FINANCIAL MODELS

- 11.1 It should be noted that projections are based on base data of income by route and tariff for financial year 2010/11 and “assumptions” on the impact of any tariff change on the level of demand. Altering the current tariff structure may well affect the current levels of usage.
- 11.2 The general principle of this exercise is that some fares will go up and some down. The options provided in Appendices 2, 3 and 4 have been constructed based on the principles detailed in sections 7 to 10 above.
- 11.3 Option 1 is loosely based on the Government’s Road Equivalent Tariff (RET) figures. The model uses the average distances to the inner and south isles and to the outer north isles. Options 2 and 3 offer alternative price points for comparison.
- 11.4 In each case, the models estimate the net effect of the tariff rates and assumptions on level of usage.
- 11.5 The Council has agreed that any alterations to the current structure be cost neutral to the Council therefore consideration will have to be given to ensure a sufficient budget to accommodate any alterations to local concessions and, if identified, to cover investment in back office functions.

12. BOOKING AND TICKETING SYSTEM

- 12.1 Crucial to implementation of a revised tariff structure for Orkney Ferries Limited is established of a system that is user friendly, cost effective, provides accurate up to date data and can be managed within current resources.
- 12.2 Use of the current booking and ticketing system is limited and therefore restricts the company’s ability to improve customer services, introduce alternative ticketing or improve back office efficiency.
- 12.3 An on line system is being developed by Orkney Ferries Limited and testing is at an advanced stage.
- 12.4 There are a number of suggested improvements that Orkney Ferries should consider introducing regardless of any changes to the tariff structure. These include implementation of an on line booking service and payment system.
- 12.5 Administration of discounts and concessions could be significantly improved with use of individual customer smart cards. These would enable identification of eligibility for concessions and remove the requirement for paper based ticketing. Smart cards also permit users to credit their account thereby removing the need for cash onboard and saving time for the purser.
- 12.6 Should the Council introduce such a system, smart cards will require to be rolled out in advance of system launch and it could be phased to provide concessionary travel in the first instance.
- 12.7 It is proposed that Orkney Ferries continue its policy to charge for vehicle no shows.

12.8 Subject to the introduction of an on line booking and pre payment system, Orkney Ferries should consider establishing a policy for refunds associated with cancellations.

13. EQUALITIES IMPACT ASSESSMENT

13.1 An equality impact assessment has been undertaken in respect of broad recommendations arising from the tariff review and is attached as Appendix 5.

13.2 The recommendation is that the Council consult with all ferry service users on three alternative tariff options. Each of the models could have a negative impact on the elderly and those with a disability, however the Council currently funds concessions for ferry users both directly through reduced tariffs to particular groups and through a local concessionary travel scheme

13.3 The revised tariffs will have a positive impact on juniors and students.

13.4 The proposed tariffs provide a number of positive socio-economic benefits by reducing the price of passenger travel

14. FINANCIAL IMPLICATIONS

14.1 In 2010/11 Orkney Ferries generated approximately 28% of its operating costs through the tariffs charged and ancillary additional income from catering, mail carrying etc. The balance of operating costs is covered by a block subsidy provided by the Council meaning that with the Company largely operating to fixed timetables any reduction in the income generated through tariff charges would represent an increased burden on the Council.

	Draft 2010/11 Accounts	£
Freight		1,272,343
Fares		1,001,491
Mails		38,473
Catering		32,577
Hire Charges		84,719
Turnover		2,429,603

14.2 An indicative figure of £20,000 has been estimated for the cost of employing consultants to undertake a review of the tariff structure levied by Orkney Ferries Limited. To date £10,000 has been committed.

14.3 Once the consultants' revision of tariffs is completed, external legal advice will be obtained to determine whether the proposals can be legally implemented. No cost estimates for this work have been obtained to date.

14.4 The cost of the tariff review will be born by the Council under the Transportation Administration revenue budget.

14.5 The key recommendation of the study brief is that any amendments to the Tariff structure should at worst be revenue neutral for the Council. This includes consideration of operational factors such as the adequacy of existing booking, ticketing and payment systems, which are likely to require further development to

reflect, for example, the transfer of ticketing and cash handling away from existing ship based resources and onto shore based facilities.

- 14.6 The Council will require to factor in both the development and ongoing costs of introducing an improved booking, ticketing and payment systems.

15. LEGAL ASPECTS

- 15.1 Orkney Ferries Limited operates ferry services on behalf of Orkney Islands Council under Service Level Agreements.
- 15.2 The Service Level Agreements state that tariff rates will form part of the revenue budget setting exercise and lead to the setting of the funding package agreed between the Company and the Council on an annual basis.
- 15.3 Section 153 (2) of the Local Government (Scotland) Act 1973 empowers the Council to “acquire, provide, maintain, improve and operate any ferry service situated wholly or partly within their area.”
- 15.4 Section 153 (3) (d) empowers the Council to fix fares and charges for any ferry, giving adequate publicity as to those fares and charges. It is implicit that any such fares and charges are reasonable and can be demonstrated as such having regard to relevant policies etc.
- 15.5 In fixing fares, the Council will require to comply with the Competition Act 1998. This Act prohibits agreements, practices and conduct which would have a damaging effect on competition. From case law, it would appear that by fixing a concession for isles-based hauliers, the Council would not be deemed to be an undertaking and therefore in breach of the Act. However, in operating the concession, Orkney Ferries would be acting as an undertaking and therefore subject to the competition rules. Breach of the rules could result in a fine at the instance of the Office of Fair Trading. The consultants have been asked to address this issue when carrying out their review of the tariff structure.
- 15.6 Advice will be required to be obtained on EU and UK law to ensure that the proposals can be implemented legally. This will be done following consideration of the options and development of the financial models prepared by the Spyria Partnership.

16. CONTACT OFFICERS

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17. APPENDICES

- 17.1 Appendix 1 – Baseline Tariff Income 2010/11
- 17.2 Appendix 2 – Option 1
- 17.3 Appendix 3 – Option 2
- 17.4 Appendix 4 – Option 3
- 17.5 Appendix 5 – Equalities Impact Assessment