

Caledonian Maritime Assets Limited

Looking into the future

Guy Platten – Managing Director

Introduction

Caledonian Maritime Assets Limited (CMAL) owns 31 ferries (plus one under construction) and 21 ports and harbours on the West Coast of Scotland that provide vital ferry services to island communities. The ferry services are operated by CalMac Ferries Limited (CFL) under the terms of a six year public service contract which runs from 01 October 2007. CMAL, like CFL, is 100% owned by Scottish Ministers.

CMAL is charged with the long term maintenance and improvement of the assets under its ownership. With £210 million of port and harbour infrastructure and £80 million of vessels CMAL is developing a comprehensive 10 year plus strategy to deliver fleet replacement and asset improvement. This paper provides some background to the situation and highlights many of the challenges facing the company as it seeks to deliver its core mission.

Background

Until 1 October 2006, Caledonian MacBrayne Ltd provided the majority of Clyde and Hebrides ferry services and owned the associated vessels and a number of the harbour facilities. That company was wholly owned by Scottish Ministers. These services required an annual revenue deficit grant from the Scottish Executive to maintain lifeline service levels.

In order to comply with European guidelines on State Aids in Maritime Transport, an open public tender was deemed necessary in respect of these ferry services. The then Scottish Executive tendered the Clyde and Hebrides Ferry Services (CHFS) as a single bundle, with the exception of the Gourock-Dunoon service.

In recognition of the uniqueness of the fleet and in order to ensure a level playing field for all bidders on 1 October 2006 Caledonian MacBrayne Ltd was split into an asset-owning company, Caledonian Maritime Assets Ltd (CMAL), and a new operating company, CalMac Ferries Ltd (CFL). Caledonian MacBrayne Ltd transferred its operations - but not assets - to CFL. Restructuring was planned to provide a seamless transition and ensure continuity of services to ferry customers on the Clyde and Hebrides routes.

Now CMAL, like CFL, is a publicly owned company with Scottish Ministers as the sole shareholder. It owns all vessels and land-based assets such as ports and harbours, and makes them available to an operator through an open tendering process. For a period of six years running from 1 October 2007, CFL continues to operate the services having won the tendering process with their bid. Under the terms of the tender, CFL is bound to use the vessels of CMAL

Corporate Governance

The company is overseen by a Board of Directors appointed by the Scottish Ministers in place of the existing CalMac Board who have transferred to CFL. Currently, the Board comprises a non-executive Chair plus two other non-executive members. The Managing Director also sits on the Board as an Executive Director.

CMAL is run by a small full time team of skilled personnel led by the Managing Director, Guy Platten. It comprises marine engineers, port specialists, civil engineers, finance specialists and administrative staff. The team of 10 was recruited during 2007 and is now largely in place. The business model for CMAL is to keep staff overheads to the absolute minimum in order to ensure the maximum amount of funds are available for investment. The CMAL team operate out of a headquarters based in Port Glasgow.

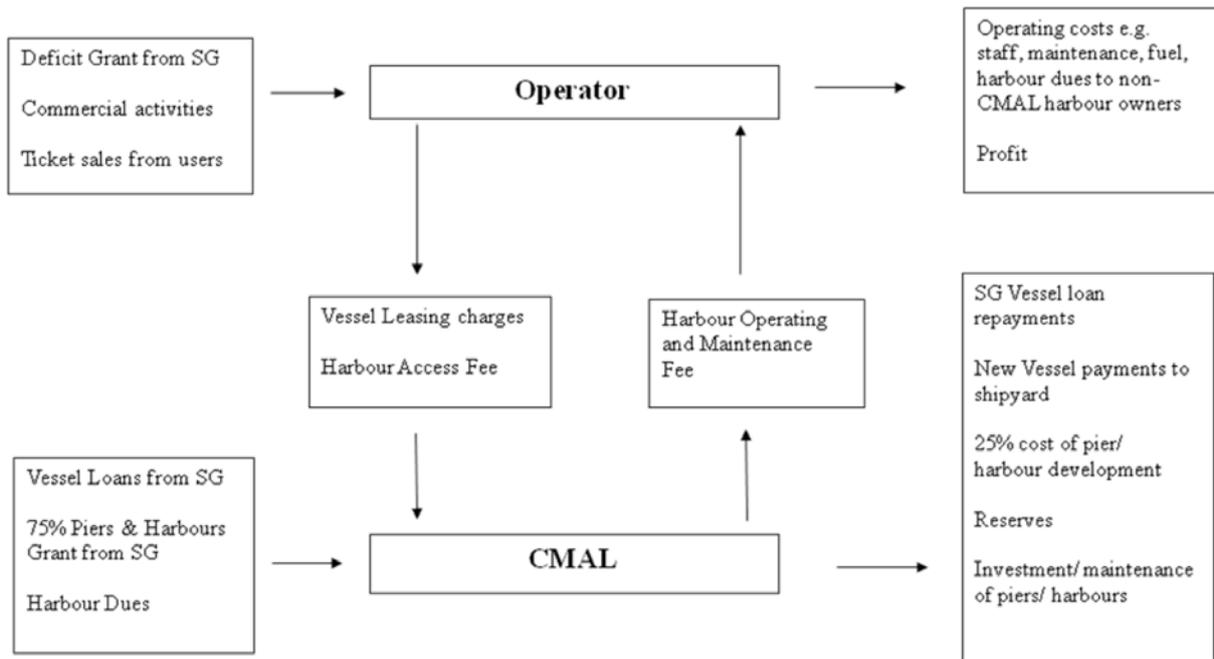
Corporate Responsibilities and Duties

The primary responsibilities of Caledonian Maritime Assets Ltd. are as follows:

- Vessels – The ownership, maintenance and replacement as necessary of the fleet of vessels. It will implement and manage vessel charter agreements with the operator, CFL.
- Piers and Harbours – The ownership, management and maintenance of piers, harbours, buildings and associated infrastructure. For this purpose, it will implement and oversee newly drafted Harbour Access and Operation Agreements with the appointed operator, CFL.
- Harbour Authority – All operations, public safety, environmental and other statutory responsibilities of the harbour authority at its own harbours.
- Brand – the ownership, safeguarding and ‘licensing’ of the Caledonian MacBrayne Ltd. brand and other registered trademarks.
- Pension Scheme – ensuring that the company meets its obligations in respect of the pension rights of employees past and present, including continuing to act as Principal Employer of the existing Caledonian MacBrayne Ltd Pension Fund following the transfer of operations to CFL.

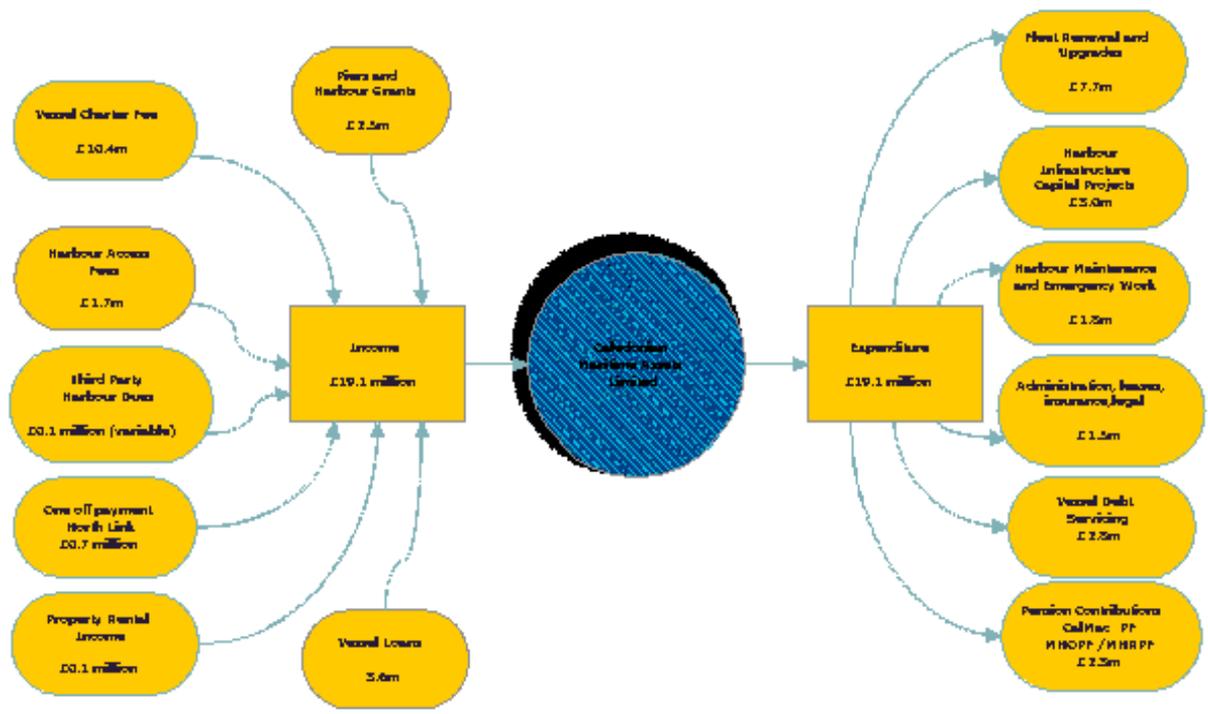
The various leases and agreements run for periods of 6 years from 01 October 2007 in parallel with the ferry service contracts issued by the Scottish Government to the appointed operator.

Income



CMAL derives its income principally from chartering out the ferries and for access to its ports and harbours by the operator. In addition a small income is derived from third party access to the harbours and from leasing out a number of buildings and land. This income is then used to invest in maintaining the ports and harbours, servicing loans for new ships and ensuring deficits to the various pension obligations the company inherited are properly serviced.

Income and Expenditure 2007/2008



Challenges

The challenges facing CMAL are wide and varied. One of the advantages in splitting out operations from assets is that it allows each company to focus on their primary area of responsibility. For CMAL this means that for the first time perhaps there is the opportunity to develop a comprehensive asset management plan that can look 5, 10 years and even longer into the future to ensure that the correct tools are in place to ensure the continuance and development of the vital ferry services on which the island communities depend. Meantime the operator can focus on the day to day delivery of these services in order to meet and exceed the customers' expectations.

The average age of the fleet is now 17 years and this will rise to 21 years by the time the new Islay vessel, currently under construction in Poland, is delivered in 2011. The average age of the smaller ferries is over 19 years and some of the ferries are now over 30 years old. The vessels are extremely well maintained however they can only realistically go on for so long before the costs of maintenance and availability of spare parts mean that they require replacement and therefore it is essential that a comprehensive fleet replacement programme is developed. In today's shipbuilding market it can take up to four years to build and deliver a new ship, and that doesn't even include the time necessary to put together a comprehensive specification and undertake the tendering process. Additionally the cost of new ships has steadily increased over the last few years as shipyard capacity is stretched to the maximum. For example taking the year 2000 as a base index of 100, in 2008 that figure is now 190 and it can be seen therefore that costs have nearly doubled in less than 10 years. There is no indication that pressures will ease, at least in the short to medium term.

In developing the fleet replacement programme CMAL must have due cognisance of developments in ferry design, the pressure to ensure that they meet and exceed robust environmental standards and that, given a ferry will last 30 years plus, that they remain fit for purpose throughout their life. This means developing an understanding of the needs of the communities, needs of the operator and the availability/anticipation of the right technology whilst ensuring value for money.

On the harbours and piers side unfortunately there has been a shortfall in investment over the years in the infrastructure with an almost 'sticking plaster' approach having to be taken. An immediate challenge for CMAL therefore is to ensure the facilities are kept at a safe and acceptable standard for the short and medium term and that adequate funds are made available. A comprehensive condition survey of all the piers and harbours was carried out in the middle of 2007 and the information gleaned from this has already enabled a 10 year maintenance plan to be developed which in time will reap financial benefits through structured and targeted action. Unfortunately the finance required to undertake this maintenance programme to start with is significantly more than was envisaged when the initial financial model was developed and this does not take into

account the various improvements and enhancements that CMAL rightly need to put in place. That said some significant investment has already taken place in the last year, for example a second link span at Oban and more is planned later this year when CMAL intends to rebuild the pier at Largs. Other plans also include modernising the facilities at Port Ellen and Kennacraig which are coming to the end of their working lives as well as modernising the port at Brodick.

On pensions, perhaps less exciting but nonetheless equally challenging, CMAL is the principle employer of a number of pension schemes. Historical deficits in these schemes need to be addressed and this in itself is a major draw on CMAL's limited income.

Finally a major challenge will be of course financial. We can and will develop ambitious plans to overcome the challenges described however this will depend on ensuring that we have the necessary financial resources in place. Income is fairly fixed from the operator and we have to compete for grants and loans with other Government Organisations. CMAL therefore has the challenge of increasing income from other sources perhaps from encouraging additional third party use of the harbours, developing some of the ports and harbours where possible and seeking grants from the EU as well as developing partnerships with other organisations and companies. The company needs to think innovately if it is to deliver.

Looking into the future

The islands depend upon reliable ferry services and it is essential these are maintained if they are to succeed economically and socially. The small CMAL team is focussed and enthusiastic about developing the company and delivering on its responsibilities. We are ambitious about what we want to achieve and committed to improving and enhancing the assets under our control. The challenges highlighted above will be overcome and CMAL will ensure that its core AIM is delivered.

“To provide efficient, cost effective and safe vessels, harbours and associated port infrastructure for operators, communities and users in and around Scotland and, through consultation and involvement of all stakeholders and robust strategic planning, advise Scottish Ministers on future developments and improvements”

We have ordered a brand new ship for the Islay route, completed a second link span and enhanced passenger access in Oban and are currently out to tender for works to rebuild a crumbling pier in Largs. CMAL can bring extensive experience in project management and will use these skills to ensure value for money projects to time and budget. We are also working with partner organisations in Ireland and Northern Ireland to secure EU funds to look at small ferry provision and replacement, a problem common to all three regions.

Already significant progress has been made in developing a long term plan and, for example, a number of STAGs will be commissioned in the next few weeks which will help inform those plans which in turn will lead to new ships and improved ports. It is envisaged that the 10 year plus strategic plan will be published later this year.

Conclusion

The splitting of the companies into asset owning and operational was controversial at the time and attracted widespread comment and opinion not just in Scotland but further afield however we are convinced it is the right model to deliver the vital ferry services to island communities. It allows focus on assets and ensures that vital infrastructure remains essentially in public control whilst complying with EU legislation on state subsidies. This model is attracting a great deal of interest from other European nations and further afield and it is recognised that it is a viable solution compared to other alternatives when tendering lifeline ferry routes. In some countries, for example, each lifeline route is tendered separately and the winning bidder is expected to supply its own vessels to operate on them. What they are finding now is that one private operator is emerging as the winner on the majority of routes and there is a fear from observers that when the routes are retendered in a few years' time costs may escalate and be largely out of the control of the Government.

Guy Platten

Managing Director

Caledonian Maritime Assets Limited