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## Press release

Embargoed until 00.01 Thursday, 22 December 2005

### Report on Northern Isles ferry service contract published

**The Auditor General for Scotland has today published his report on the Scottish Executive's handling of the five-year contract, which commenced in October 2002, to run the lifeline ferry service to the Northern Isles.**

The Auditor General asked Audit Scotland to investigate the service following reports in August this year that the total subsidy paid to service operator NorthLink to date had risen substantially.

The study examined:

- Whether the competition was executed fairly and in accordance with good practice so as to achieve value for money;
- Whether the Scottish Executive managed well subsequent negotiations with NorthLink concerning claims for additional financial support;
- Whether the Scottish Executive established robust and clear arrangements for managing the contract once the contract period began;
- What the Scottish Executive is doing to ensure the continuity of lifeline services to the Northern Isles.

The main finding is that the Scottish Executive Transport Group (SETG) carried out an adequate tendering exercise. NorthLink was awarded the contract because it submitted the lowest bid for subsidy in accordance with the relevant EC regulations.

When NorthLink got into financial difficulties because competition reduced its income and some of its costs were higher than expected, SETG made additional payments in accordance with the terms of the contract. However this was insufficient to solve NorthLink's cashflow problems.

As NorthLink's financial difficulties surfaced, SETG considered that it had little option other than to provide additional subsidy under a revised contract to ensure that this vital service continued and to bring forward the early re-tendering of the routes. Since NorthLink began operating, SETG has paid the company £71 million. This consisted of the basic subsidy of £33.6 million, other payments allowed in the contract of £16.7 million, a payment of £2.5 million to pay off installment leases on some of the assets used by NorthLink, and additional funding to maintain service delivery of £18.2 million.

The procurement process took longer than expected mainly because of negotiations with the EC. As a result of the delay, the former P&O contract was extended by six months, involving a £8 million subsidy.

There were some limitations in the information originally made available to bidders and SETG has been working with NorthLink to improve the information for the current tender exercise.

Commenting on his report, the Auditor General said:

"EC guidelines required the service to be tendered. The NorthLink bid complied with the Scottish Executive's requirements and it involved the lowest bid for subsidy. It was accepted in accordance with EC rules. However, our report highlights the fundamental importance of providing bidders with adequate and reliable information for framing their bids and for the cost estimates to be robustly evaluated by the client before a contract is awarded."

The report says that the current re-tendering process reflects the Executive's policy in balancing the need for continuity in the provision of an essential service with the need to transfer operational risks to the new ferry operator. The proposed contract will allow for additional subsidy to be paid to the next operator in certain circumstances.

Ends

**Further Information from Leon Thompson tel: 0131 624 9974 or Anne McCubbin tel: 0131 624 9970.**

1. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. It provides services to the Auditor General for Scotland and the Accounts Commission.

2. The Auditor General is responsible for securing the audit of the Scottish Executive and most other public bodies in Scotland, except local authorities. He investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and is not subject to the control of the Scottish Executive or the Scottish Parliament.

3. The full report can be found on Audit Scotland's website – [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)