



National Audit Office

The Maritime and Coastguard Agency's response to growth in the UK merchant fleet

LONDON: The Stationery Office
£14.35

Ordered by the
House of Commons
to be printed on 9 February 2009



SUMMARY

Background

1 Our report focuses on how the Maritime and Coastguard Agency (the Agency) has responded to growth in the UK registered merchant shipping fleet, following a government drive to increase its size. The Agency is an executive agency of the Department for Transport and is part of the UK Maritime Administration. Its principal responsibilities are: promoting and enforcing high levels of maritime safety and security; preventing pollution from ships; and maintaining the

quality of ships on the UK Ship Register anywhere in the world. It does this through its own in-depth surveys of some aspects of UK vessels, its assurance of the work of independent bodies such as classification societies in surveying other aspects of UK vessels, and general inspections to check that UK vessels comply with all relevant standards. It also monitors the quality of foreign ships visiting UK ports; maintains a register of seafarers qualified to UK standards; and issues certificates of competency to seafarers who qualify in the UK.

2 In 2000, the Government introduced tonnage tax as part of a package of measures designed to reverse the long-term decline in the UK registered merchant shipping fleet. Tonnage tax allows a company operating a vessel controlled from the United Kingdom to opt to pay tax on the basis of its tonnage rather than the profit on the vessel's trading activities. Since then the number of merchant vessels joining the UK Ship Register has increased substantially, reversing the decline in the UK trading fleet and changing its character with implications for the volume and location of the Agency's work.

- By the end of 2007 the UK registered merchant fleet had grown from 1,050 to 1,518 vessels. Of these, 646 vessels were trading vessels compared with 417 vessels in 2000.
- Ships are larger, with the average gross tonnage increasing from almost 11,000 gross tonnage to over 19,000 tonnage.
- The trading pattern has changed: over half of the fleet did not visit a UK port in 2007 against a third in 2000. The Agency carried out one quarter of its survey and inspection work for merchant vessels overseas in 2007-08 compared to 5 per cent in 2000-01.
- The Agency issued 4,722 Certificates of Equivalent Competency to seafarers trained overseas in 2007-08 compared with 3,244 in 2003-04, an increase of 46 per cent.

3 The rate of growth in the fleet slowed to 10 per cent in 2007, compared with 40 per cent between 2001 and 2003 and future growth is vulnerable to factors outside the Agency's control. Some shipping companies told us that they are deferring decisions on whether to flag to the UK until a European Union review of tonnage tax regimes and proposed legislative changes affecting the terms and conditions of seafarers working on UK registered ships are resolved.

Key findings

4 This report is not an evaluation of the success of the UK's merchant shipping tax policy, but evaluates how the Agency has handled associated growth in the merchant fleet while continuing to assure the quality of the UK flag. Following the drive to increase the UK registered merchant fleet, the Agency faces significant challenges as its capacity to meet ship inspection targets is stretched; international competition for skilled mariners intensifies; and competing flags improve their performance, eroding the UK's quality advantage.

On planning for and responding to growth in the UK Ship Register

5 Increasing workloads and shortages of marine surveyors mean that the Agency needs to improve its planning of work and resources.

- Prior to the introduction of the tonnage tax in 2000, the Agency did not make specific plans for handling the workload associated with potential growth. The Agency responded as growth in the fleet increased its workload by implementing a series of measures such as delegating more of the survey work related to the construction of a vessel to classification societies. It still retains in house the survey work related to safety standards and all the inspection work. Since 2000, it has conducted more surveys and inspections and met or exceeded most of its targets for these with fewer marine surveyors (around 160) than it employed during the 1990s (180). However it missed some of its targets for inspections of UK vessels for the first time in 2007-08, and expects to miss them again in 2008-09. Failure to meet its targets will increase the risk that UK vessels which do not comply with regulations operate without detection in UK ports and waters.
- The Committee of Public Accounts recommended in 2002, that the Agency should gear recruitment and training strategies to meeting a potentially higher demand for well-qualified surveyors. That demand has materialised and increasingly the Agency is carrying vacancies for marine surveyors. The pool from which it recruits surveyors is diminishing and there is increasing competition for suitably skilled candidates.

6 The Agency has consistently failed to achieve full cost recovery from fees to owners for its survey work.

On the quality of the UK flag

7 There are signs that the quality advantage of the UK flag, which came from its high standing in international rankings, is starting to erode, even though the Agency's strategy is to attract quality ships, and it has increased the proportion of surveys and inspections carried out on UK registered vessels. Increasingly the UK is competing with other Flag States to attract merchant ships to the UK flag. The proportion of UK vessels detained overseas because they are not fit to go to sea remains amongst the lowest for any flag state, but the rest of the world is catching up. Overseas administrations in the North Atlantic trading area, the main trading area for UK flagged vessels, are finding a greater proportion of UK merchant vessels with shortcomings compared with international standards (known as deficiencies). This increase has been greater than for other flag states.

8 Agency surveyors generally identify more deficiencies during their general inspections of UK vessels than overseas inspectors. But the opposite is true of pollution-related deficiencies. Ships' masters were positive about the standard of Agency services but owners had mixed views about the quality of service they receive.

Conclusion on value for money

9 The Agency did not plan how it would handle the growth in the UK merchant fleet prior to the introduction of the tonnage tax. As growth materialised it relied largely on delegating more survey work to the classification societies and its existing staff resources. The level of these resources had not changed over the years in line with the decline in the fleet. As the fleet increased, the Agency used its staff resources more efficiently. Until recently it had met its targets for inspections and its plans for surveys, but it is now struggling to meet its inspection targets. The Agency has maintained the quality of the UK flag in terms of the accident rate for UK merchant vessels and the proportion detained overseas because of shortcomings relative to international standards. But its quality advantage in its main trading area – the North Atlantic – has been eroded as other flags have improved and overseas inspectors are finding more defects on UK flagged vessels. Despite these challenges, the Agency's achievement in supporting the growth of the merchant fleet without significant extra resources has been an efficient use of taxpayers' money.

Recommendations

On growing the flag

10 **The Agency did not have a strategy in place to deal with the potential increase in the UK registered merchant shipping fleet.** Given continued change in the growth and nature of the worldwide merchant fleet, increased competition from other flags and mixed customer perceptions of the service they receive from the Agency, we recommend that the Maritime and Coastguard Agency:

- assesses the prospects for the size and composition of the UK fleet over a rolling five year period, and develops regularly updated plans for carrying out its core responsibilities as a flag state which consider the likely range of scenarios;

- improves customer service, particularly for the operators and owners of smaller vessels by:
 - customer services managers making themselves known to, and meeting at least annually with, all significant operators assigned to them;
 - gathering feedback from customers on standards for survey, inspection and registration activity, for example by using electronic survey methods similar to those employed in this report to gather the views of ships' masters, and take account of the feedback received; and
 - allowing ship owners and operators to preview electronic versions of ships' registration certificates which the Agency proposes to issue to give them an opportunity to check for errors.

On making better use of marine surveyor resources

11 **Higher workloads and vacancies for surveyors contributed to the Agency missing its targets for inspections in 2007-08.** A competitive labour market in the wider shipping industry makes it more difficult to fill vacancies. We recognise the need for the Agency to maintain a credible in-house survey capacity, but it is also important that the Agency delegates sufficient survey work for it to be able to handle the remainder effectively itself without compromising its inspection efforts. The Agency should:

- develop a recruitment strategy to fill its current surveyor vacancies, aimed at filling surveyor posts at all levels of experience, including a graduate recruitment scheme;
- make effective use of surveyors' time by seeking to schedule survey work in advance through liaison with ship owners and operators;
- in the face of difficulties in recruiting and retaining enough skilled surveyors to meet its workload, the Agency should adopt a strategic method for delegating more survey work to classification societies, rather than using delegation to cover gaps as they arise.

On cost recovery

12 **Survey costs have not been fully recovered.** Within limits imposed by regulations and HM Treasury guidance, the Agency should work with the Department for Transport to review survey and certification fees regularly and set them at levels more likely to achieve full cost recovery.

On improving the quality of the UK flag

13 The gap between the quality of UK flagged vessels and those of other flags is narrowing. The Agency should:

- use information from its own survey and inspection database and international databases to monitor differences between the results of its own and other administrations' inspections of UK registered vessels, so as to highlight deficiencies identified by overseas inspectors which the UK does not appear to pick up;
- analyse and advise surveyors on the reasons for increases in the deficiency rate of UK vessels in the North Atlantic trading area;
- integrate those data systems which will make it easier to identify risk trends and patterns, so that the Agency can target its survey, inspection and assurance activities; and
- increase the proportion of inspections of UK merchant vessels which are performed on high risk vessels.

14 The Agency assures itself of the quality of procedures and practices of classification societies, but performs limited monitoring of the outcomes of their work.

The Agency should highlight those deficiencies found during inspections of detained or heavily deficient UK vessels, which classification societies should have picked up during a recent survey, to supplement existing arrangements to assure the quality of societies' work.