



Item: 11

General Meeting of the Council: 6 May 2026.

Orkney Ferries Limited – Proposed Implementation of Fuel Surcharge.

Report by Director of Enterprise and Resources.

1. Overview

- 1.1. This report is seeking approval to introduce a fuel surcharge to the fares charged by Orkney Ferries Limited for internal ferry services, following consideration of increasing fuel costs by the Board of Orkney Ferries Limited.
- 1.2. On 23 April 2026, the Board of Orkney Ferries Limited considered a report on the increased costs and the possibility of introducing a fuel surcharge.
- 1.3. In light of continued fuel cost pressures and forecast overspends, the Board recommended that the Council consider the introduction of a Fuel Surcharge.
- 1.4. The recommended approach is the application of a 10% surcharge to all passenger and commercial fares, designed to recover approximately 25% of the current over-budget fuel costs.
- 1.5. Fuel remains a significant and volatile component of ferry operating costs, presenting an ongoing financial risk.
- 1.6. The proposed surcharge would be applied transparently and seeks to balance financial sustainability with affordability for users and communities.

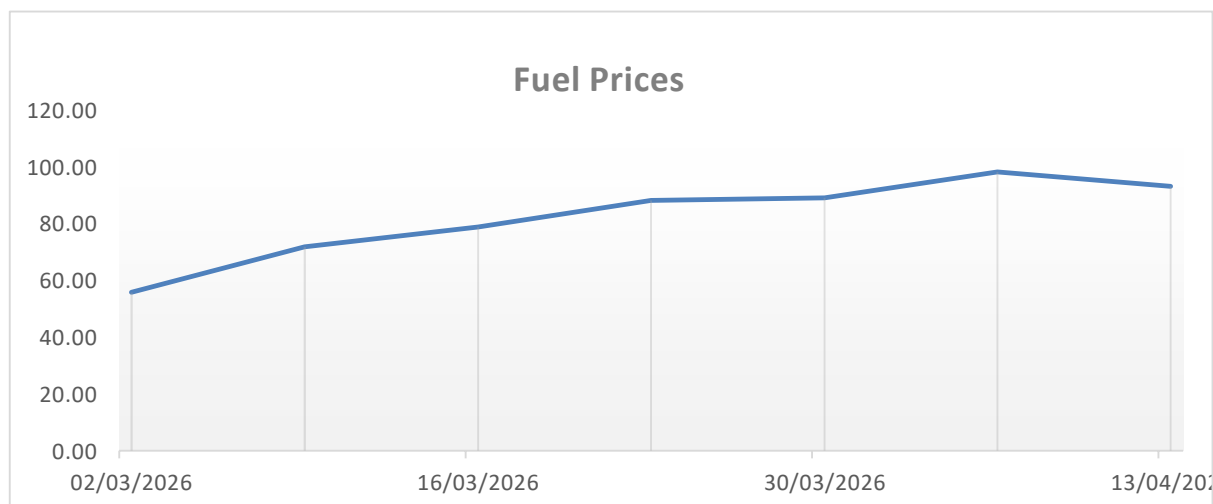
2. Recommendations

- 2.1. It is recommended that the members of the Council:
 - i. Approve the introduction of a Fuel Surcharge by Orkney Ferries Limited, set to recover approximately 25% of the over-budget fuel costs, through the application of a 10% surcharge to all passenger and commercial fares.
 - ii. Delegate authority to the Director of Enterprise and Resources to reduce or remove the surcharge in the event of a material reduction in fuel prices.

3. Background

- 3.1. During the budget setting process for 2026/27, Orkney Ferries Limited’s budget anticipated a fuel cost of 65 pence per litre (ppl), based on annual consumption of 3,279,000 litres of fuel (marine gas oil).
- 3.2. The average price per litre of fuel for financial year 2025/26 was 54.53 ppl.
- 3.3. At the start of March 2026, the fuel price was 55.81 ppl, but in early March 2026 the price of marine gas oil surged sharply because of the geopolitical conflict in the Middle East. The table below shows the increase in marine gas oil prices during the month of March and into the start of April 2026:

Fuel Prices	
W/C	PPL
02/03/2026	55.81
09/03/2026	71.94
16/03/2026	78.92
23/03/2026	88.21
30/03/2026	89.17
06/04/2026	98.35
13/04/2026	93.25



- 3.4. In response to increases in fuel costs, fuel surcharges were implemented on fares and freight transported by Orkney Ferries’ services in 2008 and 2011.
- 3.5. During the first two weeks of financial year 2026/27, there was an average variance of £27,975 above budget price per week, as detailed below:

Wks	Date	Weekly Profile	Budget Usage (litres)	Budget Price	Budgeted Price	Actual Price	Actual Price	Variance
1	06/04/26	2.77%	90828.3	£ 0.65	£ 59,038.40	£ 0.9835	£89,329.63	£ 30,291.24
2	13/04/26	2.77%	90828.3	£ 0.65	£ 59,038.40	£ 0.9325	£84,697.39	£ 25,658.99
3	20/04/26	2.77%	90828.3	£ 0.65	£ 59,038.40			
4	27/04/26	2.77%	90828.3	£ 0.65	£ 59,038.40			

3.6. The weekly variance of £27,975 per week extrapolated to a monthly cost would be approximately £117,000. This is for vessels operating to the winter timetable; from May to September fuel consumption rises due to the change to summer timetables.

3.7. Orkney Ferries does not hedge fuel prices and contracts to purchase fuel through an open procurement process whereby the company pays PLATTS plus a delivery cost. PLATTS is an independent price reporting service that publishes widely used benchmark prices for oil and fuel products.

4. Passenger and Vehicles Fares

4.1. Standard fare charges for passengers and vehicles increased by 3.4% in 2026/27, in accordance with the established policy of aligning fare increases with those applied across Transport Scotland supported ferry services.

4.2. Across many different modes of transport there have been fuel surcharges applied to recover some or all of the recent increase in costs.

4.3. Orkney Ferries' carrying statistics and turnover for 2025/26 were as follows:

2025/26	Passengers Stats	Vehicles Stats	Turnover per mth	26/27 Fare increase 3.4%	Est. Turnover 26/27	Average variance £117,000
April	27911	9376	£ 288,000	£ 9,792	£ 297,792	39.29%
May	38214	10842	£ 351,000	£ 11,934	£ 362,934	32.23%
June	38818	10853	£ 321,000	£ 10,914	£ 331,914	35.25%
July	42075	11715	£ 368,000	£ 12,512	£ 380,512	30.75%
August	42073	11411	£ 315,000	£ 10,710	£ 325,710	35.92%
September	33014	10617	£ 294,000	£ 9,996	£ 303,996	38.49%

2025/26	Passengers Stats	Vehicles Stats	Turnover per mth		26/27 Fare increase 3.4%		Est. Turnover 26/27	Average variance £117,000
October	22632	8466	£	241,000	£	8,194	£ 249,194	46.95%
November	20736	7241	£	219,000	£	7,446	£ 226,446	61.67%
December	19303	6437	£	194,000	£	6,596	£ 200,596	58.33%
January	13367	4804	£	186,000	£	6,324	£ 192,324	60.83%
February	17929	6349	£	217,000	£	7,378	£ 224,378	52.14%
March	20276	6983	£	266,000	£	9,044	£ 275,044	42.53%
							£3,370,840	
TOTAL	336348	105094					Average for Year	41.65%

4.4. To recover the additional fuel costs that have been experienced in the first two weeks of April 2026, fares would need to have increased by approximately 41.65% based on estimated turnover figures.

5. Proposed Fuel Surcharge

- 5.1. Fuel prices are monitored on a weekly basis using prices published each Monday. Where fuel prices decrease, the surcharge applied to fares would be reduced accordingly. However, should fuel prices increase, no automatic uplift in the surcharge would be applied; instead, the position would be reported to the Board of Orkney Ferries for consideration, with any proposed increase subject to further assessment and subsequent endorsement by the Council before being implemented.
- 5.2. Full recovery of the recent increase in fuel costs would require fare increases in excess of 40%, which would have a significant and unacceptable impact on users of the lifeline ferry service. Recognising the acute cost-of-living pressures faced by island and remote communities, it is therefore proposed that fares increase by a more limited 10%, and only for the period during which fuel prices remain materially above the budgeted assumption of 65 pence per litre.
- 5.3. This approach would enable the Company to recover approximately 25% of the current over-budget fuel position, striking a balance between financial sustainability and affordability for passengers who often have no viable alternative means of travel. However, it also necessitates careful consideration of the overall budget position, including whether elements of the planned capital and service

improvement programme for the current financial year can be deferred, acknowledging that while action is required, the social impact of fare increases must remain a central consideration.

- 5.4. To apply a 10% fuel surcharge to the existing fare structure would increase the fares as shown below. The 10% increase would also apply to all commercial rates:

PASSENGER FARES - North Isles

	Single	After 10% Increase	Overall Diff in Single	Return	After 10% Increase	Overall Diff in Rtn
Adult	£ 6.75	£ 7.43	£ 0.68	£ 13.50	£ 14.85	£ 1.35
Junior	£ 3.40	£ 3.74	£ 0.34	£ 6.80	£ 7.48	£ 0.68
Senior Citizen (65 and over)	£ 5.10	£ 5.61	£ 0.51	£ 10.20	£ 11.22	£ 1.02
Car up to 5.5m (18' 4")	£ 16.00	£ 17.60	£ 1.60	£ 32.00	£ 35.20	£ 3.20

PASSENGER FARES - South/Inner Isles

	Single	After 10% Increase	Overall Diff in Single	Return	After 10% Increase	Overall Diff in Rtn
Adult	£ 3.45	£ 3.80	£ 0.35	£ 6.90	£ 7.59	£ 0.69
Junior	£ 1.75	£ 1.93	£ 0.18	£ 3.50	£ 3.85	£ 0.35
Senior Citizen (65 and over)	£ 2.60	£ 2.86	£ 0.26	£ 5.20	£ 5.72	£ 0.52
Car up to 5.5m (18' 4")	£ 11.00	£ 12.10	£ 1.10	£ 22.00	£ 24.20	£ 2.20

6. Next Steps

- 6.1. If the Council approves the introduction of a fuel surcharge, Orkney Ferries Limited will implement the surcharge in line with the approved parameters of the application of a 10% addition to passenger and commercial fares. Fuel prices will continue to be monitored on a weekly basis, with the surcharge adjusted downward should fuel costs reduce materially, and any proposal to increase the surcharge subject to further consideration by the Orkney Ferries Limited Board and approval by the Council. Clear communication will be provided to users in advance of implementation, and the financial position will be kept under review and reported as part of ongoing budget monitoring.

- 6.2. The Director of Enterprise and Resources has approached Scottish Government to ascertain if any additional support may be available towards the increased costs of fuel being encountered for the lifeline ferry services. This approach has been acknowledged, but a decision is thought to be unlikely until a new administration is in place following the upcoming Scottish Parliamentary election.

For Further Information please contact:

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Implications of Report

1. **Financial** - The financial implications are largely contained in the body of the report. The budget provision for fuel within Orkney Ferries Limited forms part of the overall deficit subsidy provided by the Scottish Government to support the delivery of the timetabled ferry services. Current increases in fuel costs are expected to require additional funding of approximately £117,000 per month.
2. **Legal** - 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”. 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.
3. **Corporate Governance** - Orkney Ferries Limited operates ferry services on behalf of the Council in terms of Service Level Agreements (SLAs). The SLAs state that the Council has determined that fare increases should follow the increase applied to Transport Scotland funded ferry services and 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.
4. **Human Resources** – There are not expected to be any human resources implications arising.
5. **Equalities** - The proposal to introduce a fuel surcharge does not change eligibility for ferry services, service levels, or access arrangements, and applies uniformly to all passenger and commercial fares. The surcharge reflects a partial pass-through of exceptional fuel cost increases faced by Orkney Ferries Limited as the service operator, rather than the introduction of a new policy or service change that would differentially impact protected characteristic groups. In the absence of the proposed surcharge, the financial sustainability of lifeline ferry services would be compromised, which would be detrimental to all users. On this basis, a separate Equality Impact Assessment is not considered necessary.

6. **Island Communities Impact** - The proposal relates to the financial management of existing lifeline ferry services and does not alter service provision, connectivity, or access for individual islands or communities. The fuel surcharge is intended to support the continued operation and sustainability of ferry services in the context of unprecedented fuel cost increases, thereby helping to avoid more significant adverse impacts on island communities that would arise from service reductions or financial instability. Given that the proposal applies consistently across all routes and is intended to protect, rather than undermine, island connectivity, a separate Island Communities Impact Assessment is not considered necessary.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
 - Improving Population Health.
9. **Environmental and Climate Risk** - Orkney Ferries Limited has an expected annual consumption of 3,279,000 litres of fuel (marine gas oil) to deliver lifeline ferry services.
10. **Risk** - Fuel remains a significant and volatile component of ferry operating costs, presenting an ongoing financial risk.
11. **Procurement** - not applicable.
12. **Health and Safety** - not applicable.
13. **Property and Assets** - not applicable.
14. **Information Technology** - not applicable.
15. **Cost of Living** - covered in section 5 of the report.

List of Background Papers

Special Meeting of the Transportation and Infrastructure Committee held on 27 May 2008 – Orkney Ferries Limited, Implications arising from Increasing Fuel Costs.

Policy and Resources Committee held on 21 June 2011 – Internal Ferry Service – Proposed Fuel Surcharge.