

The Bournemouth-Swanage Motor Road and Ferry Company – Proposed Future Toll Plans

February 2020

This briefing note outlines the recent past and proposed future tolls to be operated on the Sandbanks Chain Ferry (the Ferry Company) following the first Chain Ferry Community Liaison Group held on 10th January 2020.

Please see attached the accompanying spreadsheets which contain details of the amended proposals.

Headline proposals

- Proposed cash tolls represent a 5-5.56% increase on the last Maximum Tolls Chargeable amounts approved in February 2015.
- The cost of book tickets will be frozen at the current level, rather than increased, and the discount levels will be increased until they reach 26% and 30% less than cash tolls.
- The Ferry Company owners have committed voluntarily to ensuring the Ferry Company is loaned the required funds when required and to acquire and bring into operation a suitable, newly built replacement vessel for the current ferry, Bramble Bush Bay, by the time it reaches the end of its useful life.
- The Directors of the Ferry Company also undertake that no dividends will be paid until the required level of the Ferry Replacement Reserve (less borrowings) in any given year is attained.

Overview

The Sandbanks Chain Ferry is an iconic and essential part of Purbeck and Poole life. Thousands of tourists enjoy the journey as part of their holiday to the area, and on an everyday basis, residents from both sides rely on the ferry for commuting to work. Businesses in Studland and Swanage also rely on the ferry in part for their trade, particularly in the summer months. As such, its reliability now and in the future is crucial.

This reliability is maintained through rigorous inspections, repairs, re-fits and testing – all of which are required for safety and regulatory compliance. The sound financial management of the Ferry Company is a vital cog in this machine. Without forward financial planning, safety and reliability cannot be maintained and a replacement ferry cannot be purchased at the appropriate time. The crucial part that the ferry plays in daily life for residents and businesses may therefore be jeopardised.

This note sets out the proposed toll increase plans for 2020 going forward. Toll increases play a vital but not unique role in this forward financial planning. They sit alongside careful financial management, increases in efficiency and cost savings as one part of the wider plan to secure the future of the ferry.

Proposed 2020 onwards toll increase application: cash tolls

The Ferry Company will shortly be applying to the Secretary of State for an increase in cash tolls with effect from 1st April 2020, although it is unlikely any approval will now be until much later in the year. These proposed cash toll increases, as can be seen from the attached, represent just 5% to 5.56% increases on the last approved Maximum Tolls Chargeable (MTC's) amounts approved under the last Toll Revision Order made in February 2015. This represents less than half the rate of inflation since that point in time and a significantly smaller increase than experienced by users of, for example, the UK's Rail Network or Transport for London.

The proposed cash tolls from 1st April 2021 align with a predicted Retail Price Index of 3% per year. However, to calculate charges from 1st April every year (using the initial increased tolls in April 2020 as a starting point) tolls will be determined according to the preceding January's annual RPI figure. We would never expect our team to be required to collect £1.12 or £5.36 for example, so cash tolls will be rounded down to the nearest 5p.

It should be noted that motorbike, bicycle and pedestrian tolls have not been increased since November 2009.

Proposed 2020 onwards toll increase: book tickets

From 1st April 2020 the Ferry Company has the ability to set the level of discount on book tickets under the current MTC Order.

Books of 10 or 50 tickets for motor cars (which form most the company's traffic) currently represent a 20% and just over a 24% discount on cash tolls respectively. Under the future proposals, the Ferry Company will freeze the current charges and apply levels of discounts from the MTC for book tickets until they reach 26% & 30% respectively, which, in these calculations, is shown from 1st April 2021. At this point, we have committed to ensuring that book ticket prices remain at those levels of discount. Bulk purchase costs for bikes, motorbikes & pedestrians are shown not to rise (in the same way) until at least 2025, in an effort to promote 'greener' transport usage. These pricing strategies will eradicate the inconsistent toll increases experienced by regular passengers in the past.

Ferry Replacement Reserve (FRR)

As part of the vital financial planning function, the Ferry Company's accountants have prepared amended financial forecasts based on the proposed toll increases outlined above, supplied herewith. These forecasts take account of the latest cost and timing projections for when the current vessel reaches the end of its viable economic life (which is currently expected to be January 2034) when a replacement vessel will be required.

These forecasts indicate that this will result in the Ferry Replacement Reserve (FRR) being sufficient by the time a new vessel is required, if the proposed Toll Application is approved, and during the intervening years pay the owners a sum representing a return of less than 4.3% a year on average.

We have investigated the Ferry Company's ability to borrow funds for the purchase of the replacement ferry. Our bank have confirmed (as previous banks have done over the decades) that they are currently unwilling to lend to nor against the Ferry Company for the purchase of a replacement vessel, even with a Parent Company Guarantee, due to the nature of the Company's incorporation in that it is a 'Statutory Undertaking'. This means that recourse in the event of company default would be complex, and they have deemed that there is no ready market for the sale of the Ferry Company's assets individually.

However, the Ferry Company is permitted under statute to borrow a maximum of £5 million towards a replacement ferry. To make up the shortfall with the FRR, the Ferry Company owners have committed voluntarily to ensuring the Ferry Company is loaned the required funds when required and undertake that the Company will acquire and bring into operation a suitable, newly built replacement vessel for the current ferry, Bramble Bush Bay, by the time it reaches the end of its useful life unless prevented by force majeure or any other cause beyond their control.

The Directors of the Ferry Company also undertake that no dividends will be paid until the required level of the FRR (less borrowings) in any given year is attained. This is to ensure that the FRR has reached the required level in line with the replacement ferry timescale. It is also now the Company's policy that the FRR is ring-fenced and will not be used for any other purpose. These undertakings have been committed to publicly and can be held to account publicly too.

The Company's Directors have researched comparable reasonable returns with other chain ferry operators, but public information on this is limited, so have used statistics available at Companies House for firms in similar lines of business. The Directors have expressed a desire to preserve at least a 7% return on investment on average, which is lower than these comparable businesses, whilst also acknowledging the need to balance any return with adequate funds to purchase a ferry replacement when it is required.

In the process of developing these new policies, the Ferry Company has obtained a revised cost and timing estimate report from Naval Architects BCTQ. The costs for a replacement 'Diesel Electric' ferry have significantly increased from the previous June 2008 figure of £6.2 million to £10.063 million. As such, as of 2020, it is likely that the Ferry Company will have to plan for a 'Diesel Hydraulic' replacement ferry (similar to the existing) which is estimated at a cost of £8.713 million (excluding delivery & assuming UK manufacture).

This BCTQ report also confirmed that a replacement ferry is now estimated to be required by 2034. This is dependent on the maintenance regime for the current ferry that is adopted and assumes no changes in safety nor environmental regulations. With the design, procurement and manufacturing time involved it will be prudently necessary for the Company to be in a financial position to replace the vessel no later than 31st March 2032 which is the date the Ferry Company is working towards.

Conclusion

The Ferry Company has undertaken and will continue extensive engagement with stakeholders in the future in an effort to listen to and respond to any concerns that stakeholders, residents and businesses may have over the proposed toll increase application, and its place in the wider ecosystem of sound financial planning for a safe and reliable service and, in the required time, a replacement ferry.

We hope that this briefing has provided a useful overview of the rationale for the proposed toll increase application in 2020, and will provide sufficient information prior to the application being made.