Dr Martin Ayres
Town Clerk

Tel: 01929 423636
Fax: 01929 427888
E-Mail: admin@swanage.gov.uk

TOWN HALL
SWANAGE
DORSET
BH19 2NZ

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Dear Ms Hoggins

Bournemouth-Swanage Motor Road and Ferry Company – application to the Secretary of State for Transport for an Order to revise the charges for the use of the ferry between Sandbanks and South Haven Point

On behalf of the residents of Swanage, the Town Council wishes to formally object in the strongest possible terms to the application for an Order to increase the tolls for the use of the Sandbanks to Shell Bay ferry by the above company.

The proposed increase in ferry tolls would see a 50% uplift in fares for pedestrians and cycles, from £1 to £1.50, and also in the single crossing toll for cars, from £4.50 to £6.75. The submission seeks to justify these increases by reference to the Retail Price Index, with the financial appendices assuming an average annual increase of 3 per cent. The Retail Price Index is a discredited index, which is no longer recognised as a national statistic. If inflation is to be used as the basis of future toll increases then the lower Consumer Price Index should be applied; in the last 8 years CPI has only been at or above 3 per cent for five months.

The ferry is used regularly by local residents, many of whom commute to work, college and university on a daily basis to the larger neighbouring towns of Poole and Bournemouth. When combined with the payment of parking fees, residents in this position are subject to considerable costs, and the proposed increase in ferry charges would seriously impact on the viability of their employment/studies.

Another group affected will be local students who drive to college in Bournemouth and Poole, a position that they are increasingly likely to find themselves in following recent reductions in local bus services. The fare increase will also impact on the emergency services, which are also subject to the ferry tolls.

It should be noted that, whilst Swanage is widely seen as a well-heeled seaside town, it does have pockets of hardship. Herston is among the most deprived neighbourhoods within the former Purbeck District and a significant proportion of households in Swanage South ward are defined as either hard pressed or on modest means. It is not hard to imagine the significant impact of a 50% increase in ferry tolls on the budgets of households in this category.

The chain ferry is a vital link to the conurbation, and the importance to tourism cannot be emphasised strongly enough. The increase in charges is likely to have a significant deterrent effect on potential day visitors to Purbeck from Bournemouth/Poole and also make it harder for local businesses in the traditionally lower-paid hospitality sector to attract staff. It is also noted that the charge for coaches will increase to £13.00, potentially deterring tour operators from visiting the area. Taken together, these outcomes would have a significant detrimental impact on the local economy.

The deterrent effect of significant price rises also risks greater congestion and damage to the natural environment. If commuters increasingly utilise the road network via Wareham to access Poole and Bournemouth as an alternative to using the ferry then congestion along the A351 will intensify, as will air pollution, and emissions of damaging greenhouse gases will also increase. This is in direct contravention of government policy which seeks to reduce congestion and improve air quality.

The sharp increase in fees for cyclists also stands in direct contravention of government policy to encourage environmentally friendly forms of transport. As noted by Mr Stone in paragraph 159 of his report dated November 2018 a sharp increase in fees for pedestrians and cyclists 'seems to conflict with the wider aspirations of the transport, sustainability and health agendas'. These remarks were made prior to the wider recognition of the environmental crisis facing the world that has taken place in the last year.

At past public inquiries reference has been made to a 'price ceiling point', at which the number of users will decrease. Figures supplied for the 2014 inquiry suggest that that ceiling was already being breached, given that the average number of annual car users in non-refit years had declined by 48,000 (comparing 2004-08 with 2010-14). Since that time there has been a further decline of 46,000 car users. Therefore, as prices have steadily risen following the successful toll applications of the early years of this century average annual car users have declined by 11%. The table below highlights that the combined numbers of coach and truck journeys are also exhibiting a downward trend.

Non-refit Years	Average Annual Car Users	Average Annual Coach and Truck Users
2004/06/08	838,148	17,236
2010/12/14	790,631	14,369
2012/14/16	774,384	14,373
2014/16/18	744,775	13,731

This data strongly suggests that the proposed increase in tolls will not achieve the income projections set out in the toll increase application as ever-increasing numbers of drivers are deterred from using the ferry. This is even more of a challenge in the current circumstances, given that very many people have got used to using the road during the recent succession of closedowns of the ferry service. Indeed, a further toll increase could threaten the long-term sustainability of the service. In paragraph 155 of his report Mr Stone noted this as a relevant factor stating that the ferry company's failure to identify a price ceiling point 'draws questions as to the reliability of the company's forecasts'. Despite this, paragraph 4.1 of the ferry company's submission explains that their financial projections are based on traffic volumes remaining static over the course of the next 12 years.

The Town Council disputes the ferry company's core financial justification for a toll increase, i.e. that the increase is required to fund the cost of a new ferry when the current one is to be replaced at a stated cost of £12.8m. There is almost no parallel in commercial business life to justify an approach that results in the fee-paying public providing the money in advance for a company's main asset. Furthermore, if this is the principal justification for the price rise, it would be interesting to learn whether the company would commit to reducing the fees payable by the public once its new asset has been acquired. This point was raised by Mr Stone in paragraph 157 of his report, in which he notes that if tolls did not reduce in such circumstances then a consequence of lower operating costs and the removal of the need to funnel large funds towards a ferry replacement 'could result in revenues substantially more than adequate to meet the statutory requirements'.

The ferry company is already a highly profitable business. In 2019/20 the company was projected to make £1.25m profit before tax on a turnover of £3.03m, a rate of 41%. The company's submission in respect of the proposed 2018 price rise stated 'the data table at appendix 5.1 shows that the company's profit before tax as a percentage of sales is much more favourable than other companies in similar industries' (Page 8, Paragraph 3.3.12). If the Directors wish to build up reserves for replacing the ferry in the early 2030s, they should urgently consider investing more of this profit into their reserves.

I would draw the Secretary of State's attention to the appendices included as part of the ferry company's submission, which show that significant dividends have been paid to shareholders over the years; in fact in the six years 2013-18 dividends of £4.3m were paid out, with no prudential allocation to a ferry reserve, despite the company at that time anticipating that the ferry would reach the end of its useful life in 2026.

This practice of taking excessive dividends has resulted in the company only holding approximately £2.1m in cash at March 2019, some 25 years after the current ferry was purchased. With a new boat now anticipated in 2032, this leaves a shortfall of £10m to be funded in only 12 years. Despite this, although the directors are to forego a dividend in 2019 and 2020, the financial projections predict that the company will continue to pay out a further £4.6m of dividends in the years 2021-26.

As noted in paragraph 143 of Mr Stone's report, the company has justified previous applications for increases in tolls by reference to similar arguments regarding the ferry replacement. Applications in 2004, 2006, 2009 and 2014 each proposed different dates for the ferry replacement, varying between 2017 and 2024. Each time the lifespan of the ferry was extended, but the amount of the ferry replacement reserve did not increase, and was in some years depleted. In paragraph 144 the inspector stated 'Given the previous applications I have no confidence that this would not move again'.

The Town Council notes that the ferry company has still not proposed a mechanism to adequately ringfence the replacement reserve. Instead the company remains free to lend the cash to the other activities of the parent company. The submission in support of the toll increase shows that the reserve stood at £2.6m on 31st March 2019, whilst available cash stood at £2.1m, demonstrating that the company was already using £0.5m of the reserve to fund its trading and dividend policy. This is not an auspicious start, and leads the Town Council to conclude that the inspector's concerns of only 18 months ago remain entirely justified.

A further concern held by the Council regarding the company's financial calculations is the basis on which they assess their investment and overstate the rate of return that is reasonable. If this toll increase is permitted the public will pay more, thereby enabling the shareholders to invest less. Interest rates have remained at historically low levels for more than 12 years and have dropped even further since this toll application was published. All investment comparables would reflect this. Therefore, the reference in paragraph 3.3.2. of the company's submission to returns on low risk bonds being 6.1% appears wholly unrealistic; a figure closer to half that level might appear more appropriate.

Given that the company has been able to prioritise shareholders in the way that it has, it is the opinion of the Council that there is a very strong argument that the effect of the proposed increases in the tolls would be that the company received an income that exceeded by a wide margin what was adequate. As such, were the Secretary of State to agree to the ferry company's latest proposals, he would be acting unreasonably and beyond the power given by section 6 of the Transport Charges etc. (Miscellaneous Provisions) Act 1954 which states:

> 'the Minister shall have regard to the financial position and future prospects of the undertaking and shall not make any revision of charges which in his opinion would be likely to result in the undertaking receiving an annual revenue either substantially less or substantially more than adequate to meet such expenditure on the working, management and maintenance of the undertaking and such other costs, charges and expenses of the undertaking as are properly chargeable to revenue, including reasonable contributions to any reserve, contingency or other fund and, where appropriate, a reasonable return upon the paid up share capital of the undertaking'.

In conclusion, the Town Council strongly objects to the proposed increase in ferry tolls for the reasons set out above. The Council requests that the company re-submit their application with revised annual fare increases that are no higher than the prevailing rate of CPI inflation, and with more of the costs for the new ferry financed by a reduced dividend to the shareholders. No increases should be introduced for environmentally-friendly forms of transport, such as foot passengers and cyclists. If no such re-submission is forthcoming then the Secretary of State is requested to call a Public Inquiry accordingly.

Yours sincerely

Dr M K Ayres

Town Clerk

cc Rt Hon Grant Shapps MP, Secretary of State for Transport
Richard Drax MP for South Dorset
Mr M Kean, Bournemouth-Swanage Motor Road and Ferry Company

Ms D Hoggins
Casework Manager
National Transport Casework Team
Department for Transport
Tyneside House
Skinnerburn Road
Newcastle Business Park
Newcastle upon Tyne
NE4 7AR