2- Need to ring fence the FRR and no fare increase required

The Applicant has given an undertaking to ring fence the FRR but regrettably this is not sufficient safeguard for the substantial funds held at bank which represent the FRR.

The FRR forms the only Revenue Reserves of the company and as such is totally at the mercy of the proprietor and creditors. There are no other distributable reserves available, as a policy of total distribution is adopted by the company. The SFC is party to a Bank Guarrantee to the FG Bankers. As such the FRR is exposed to the non ferry FG activities. It is therefore imperative that if replacement is to be funded by means of the FRR, the funds are placed in an Escrow account or in trust to ensure that they are available when required and beyond the reach of the proprietors, creditors and bankers.

The reasoning behind this becomes clear when one looks at the history of the company. In the early 1960's the FC was sold by the original proprietors. The purchasers were Raglan Property Company who operated the Ferry for approximately 20 years. The ferry revenues were used to prop up the failing property company. Eventually Raglan failed and the company bankers seized the ferry operation and ultimately in 1983 sold it to Silvermist Properties (Chelmsford) Ltd – the forerunners of the Fairacres Group Ltd. Over the years of FG ownership ever increasing dividends have been paid. These dividends have not been passed on to the individuals owning the FG but used to help fund diversification into the Hotel business. By the end of 2018 FG had spent £23M on these other activities funded by cash balances and borrowing. This diversification has not been a success and Review Hotels Ltd have yet to earn a profit over the 8 years and has incurred substantial borrowing. The Inspector should ask FG to release the Accounts to 31st March 2020 of FG and Review Hotels to the Inquiry as they are pertinent to the risks that SFC is exposed to under the bank guarantee. They currently have a COVID dispensation on filing until 31st December.

SFC has applied for a fare increase over the 12 years to the projected ferry replacement date of 2032. Please find attached Appendix MT3 which shows that on the following assumptions there is no need for a fare increase at all:

- A loan or equity input by FG of £5M.
- Ferry cost of £12.8M.
- Current FRR balance of £3.6M

- Current FRR shortage = £12.8M - £5m - £3.6M = £4.2M
- Recovered over 12 years straight line =£346K pa
- Any shortfall of FRR in one year recovered in the next year

With no increase we can fully fund the FRR up to £7.8M as above and pay dividends over the period of nearly £3.3M. There could possibly be an argument for a small fare increase after year 6 to maintain dividend levels.

In conclusion – there should be no fare increase for the next 6 years and the FRR funds have to be legally ring fenced and not encompassed within the bank guarantee. There is not only the threat from the bank but as things stand today FG may not be in a position to renew the ferry at some future date and would be entitled to withdraw the FRR balance by way of loan or dividend.

Malcolm Tice

11th November 2020