

**Statement of Michael Kean**  
**Bournemouth-Swanage Motor Road and Ferry Company**

9<sup>th</sup> December 2020

- 1- The Ferry Company welcomes the opportunity this Public Inquiry provides to communicate its approach to toll increases since the last toll increase application was refused in 2018.
- 2- Since that time, the Ferry Company has developed a significantly revised toll increase plan that takes on board the conclusions from the last Public Inquiry and incorporates discussions with local stakeholders and residents through the Ferry Community Liaison Group.
- 3- Toll increases, which have not been approved since February 2015, are needed periodically by the Ferry Company. These toll increases pay for regular maintenance of the Bramble Bush Bay and are needed to keep pace with rises in running costs in the business. Further they will contribute annually to the Ferry Replacement Reserve (FRR) to ensure the required funds are available when the current ferry, the Bramble Bush Bay, needs to be replaced.

**Rationale for the original application**

- 4- The approval of the original application would allow small rises in tolls in line with inflation only, never exceeding inflation annually. The application was also structured to increase discounts for regular ferry users.

**Rationale for the revised application**

- 5- An alternative toll proposal has now been received from a consortium of Councils (Bournemouth, Christchurch and Poole, Dorset and Swanage Town) ("**the Consortium**"), the Ferry Company has now had the opportunity to consider that alternative Consortium proposal.
- 6- The Ferry Company welcomes the Consortium's involvement and believes there is considerable merit in its proposals.
- 7- The Consortium's proposal accepts that without the same level of total income as sought in the Ferry Company's original proposal, and so a toll increase, the Ferry Company will not be able to fund the replacement ferry.

- 8- The Ferry Company consider that the Consortium's use of fixed increases provides greater clarity and transparency for (particularly) regular users.
- 9- The Consortium's proposal also promotes the use of bikes and foot travel.
- 10- Having therefore considered the Consortium's proposal, the Directors decided to submit a revised application implementing many of the Consortium's suggestions but also addressing some of its issues, as set out below. That new proposal is attached at Section C of Mr Thomas's report.
- 11- The Ferry Company's revised application seeks to achieve the objectives pursued by the Consortium but also seeks to ensure that charges for local residents regularly taking their vehicles onto the Ferry do not increase significantly. It does this by ensuring charges for bulk tickets remain discounted at higher levels than presently, such that any increases are less than inflation and so, in real terms, are decreases in the cost. For occasional car users, the initial increase is less and more incremental than that proposed by the Consortium.
- 12- The Ferry Company therefore puts this proposal forward as a revised application for approval. It believes it will secure the future safe and reliable running of the current vessel, the Bramble Bush Bay.
- 13- Further along with increases in efficiency, cost savings and the commitment from the directors not to pay dividends until the FRR reaches the level it needs to it will ensure that the funds will be in place to purchase a replacement ferry when judged necessary by the Ferry Company's Naval Architects
- 14- Both the original and revised applications assume that the Ferry Company will borrow the maximum it is permitted by Parliament, £5 million, as part of funding a replacement ferry.
- 15- There has been a certain amount of misunderstanding about what is proposed. There is a local "rumour" that prices for vehicles will double immediately. This is not the case. Both the original and revised applications provide that the maximum chargeable tolls will be phased in over twelve years. In the original application, the Ferry Company's Directors proposed limiting cash toll increases to inflation using the preceding January's RPI and rounded down to the nearest 5p. The revised application provides greater certainty. It is possible to see exactly how the fares will increase over the next 12 years; generally by a small fixed amount of 10p or 20p per annum.

### **Changes to investor returns policy**

- 16- The Ferry Company has now adopted a formal policy so that returns for shareholders rank behind the FRR. If the Ferry Company's application is granted, no dividend will be paid to shareholders unless the balance on the FRR plus £5m (being the maximum amount the Ferry Company can raise) exceeds the forecast cost of a new ferry. In addition, no dividend will ever exceed the profit after tax earned in the year.

17- The financial risks are therefore borne first by the shareholders. This can be demonstrated as no dividends have been paid to shareholders since 2017. This was due to the significant financial impact of unprecedented mechanical failures in 2018 and 2019 and the COVID-19 service suspension. In all three years, any profits that have been made have been allocated only to the FRR, meaning these financial impacts have been borne by the Shareholders, rather than customers. This will continue to be the case in the future. If and when dividends are paid in future, the average estimated return on investment (assuming the revised application is approved) will be a modest return when compared to the assumption of risk, the returns obtained by other similar operators and returns generally available on other investments. The figures are as set out in the Kevin Thomas report but briefly no dividend is anticipated for the next 2 years and thereafter a range of dividends from 0.6% and 5.6% averaging 3.7%

#### **Funding a replacement to the Bramble Bush Bay**

18- The Parent Company, Fairacres Group, as controlling shareholder, gave a legal undertaking to ring-fence the FRR in February 2020 so that it cannot be used for any other purpose. This undertaking has also been committed to publicly. The legal undertaking is the maximum protection that can be provided. It ensures that the Ferry Company will not (as envisaged by Studland PC) pay these sums to the Parent Company as dividends.

19- The Director's do not believe that it is possible, without breaching company law, to remove funds from a company and place them in trust or escrow so as to deny those funds to the Ferry Company's creditors, including the preferred creditors such as employees and the Crown, in the event of insolvency.

20- Even if it was possible (which the directors do not accept) to set up such a trust the only possible beneficiary of the trust would be the Ferry Company. The funds would have to be released from the trust and paid back to the Ferry Company on demand.

21- To fully fund the replacement of the Bramble Bush Bay, the Ferry Company is permitted by statute to borrow £5 million in addition to the reserves built up in the FRR. To further guarantee continuity of service, the Ferry Company has obtained an undertaking from its Parent Company to the Secretary of State that, in the likely event the Ferry Company is unable to obtain loan monies for a replacement vessel, the Parent Company will provide what financial support is required to purchase the replacement vessel. This demonstrates the shareholders' taking on considerable risk, for the benefit of the Ferry Company.

#### **How the toll increases would be implemented**

22- Toll applications must, by virtue of the legislation that governs the operation and management of the ferry, apply only for the maximum level a toll could reach – the Maximum Tolls Chargeable (MTC's) – for each

passenger class. This is not the same as a toll increase. Although the current application requests MTC's that are 50% above the current tolls, it will take 12 years for tolls to reach these MTCs given that the revised application commits to small annual rises.

23- If the revised application is approved:

- a. Pedestrians and bike tolls would stay unchanged, at £1, for the entire period;
- b. Single use cars would initially increase by 50p and thereafter generally at 10p per year, sometimes 20p.
- c. Books of car tickets would continue to have significant discounts as detailed in Appendix 8. These discounts will be below inflation, such that, in real terms they will amount to a reduction in the cost of tolls over the period set out below.

<u>£ for</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>
<u>Cars</u>												
Cash Toll	4.50	5.00	5.10	5.20	5.30	5.40	5.60	5.80	6.0	6.25	6.50	6.75
Book of 10 tickets	36.00	36.00	36.72	37.44	38.16	38.88	40.32	41.76	43.20	45.00	46.80	48.60
Book of 50 tickets	170.00	170.00	173.40	176.80	180.20	183.60	190.40	197.20	204.00	212.50	221.00	229.50

### **Timescales for a replacement ferry**

24- If this application is approved, it is projected that these updated MTCs will be sufficient to fund extra running costs up to and the ferry replacement in 2034 without the need for additional applications, and consequent public inquiry, to increase the MTCs.

25- A prudent maintenance regime alongside investment in hundreds of different spare parts on site at the Ferry Company operation means that Naval Architects have extended the expected lifespan of the Bramble Bush Bay by a number of years since the previous assessments were carried out. Naval Architects now estimate that if the current maintenance regime is maintained, the Bramble Bush Bay can continue in service until 2034. After this, a replacement will be necessary to ensure the continuance of a reliable and cost-effective service for customers.

## **Environmental commitments**

- 26-Currently, Naval Architects do not believe there is a viable non-diesel alternative to the Bramble Bush Bay available on the market and the costs of emerging technologies are an unknown. As such, responsible projections of the likely costs to purchase a replacement vessel are based on the most cost-effective like-for-like replacement, a diesel-propelled hydraulic vessel, as this is the technology for which accurate figures are available. However, the Ferry Company has publicly committed to investigating a more environmentally-friendly replacement for the Bramble Bush Bay at the time of ordering a replacement, likely to be in 2032.
- 27- Annually, the Ferry removes approximately 9 million road miles from Dorset, thereby helping local residents and businesses reduce their own carbon footprint, and is committed to reducing its own carbon footprint in line with the Government's stated commitment to be zero carbon by 2050.

## **Issues with the Consortium's Proposals**

- 28- The Ferry Company is less convinced than the Consortium that all the environmental efforts should be focussed on discouraging car use. It considers there is a necessary place for car use in the local economy, particularly electric cars and buses.
- 29- The Consortium's proposal fails to take into account the income reductions in alternate years due to essential maintenance work and the bi-annual ferry refits. This results on the ferry being out of operation for 6 weeks in every four years and for 2 weeks in every other four years i.e. financial year ending 2023 – 6 weeks; 2025 – 2 weeks; 2027 – 6 weeks; 2029 – 2 weeks, and so on.
- 30- The historic figures used were taken from one year only; not as with the Ferry Company's proposals using several previous years.
- 31- The proposal places the burden of increases on the single trip car use. This might have wider implications for hospitality businesses and possibly means fewer cars using ferry at peak tourist times resulting in yet further polluting road congestion, damaging local business at the same time.
- 32- In its note, the Consortium sets out how it has adopted, for cars, "three-stepped approach to increases rather than" as now proposed by the Ferry Company small rises in tolls every year.
- 33- The present Government's approach to increasing both the National Living Wage and working age benefits is to use gradual annual increases. The concept of the "poverty premium" is where the poor pay more for essential goods and services because they cannot afford the upfront cost of a bulk discount.

34- The Consortium's proposal, therefore, that individual ticket prices should be increased in three jumps runs the risk of disproportionately affecting those who use the Ferry to commute by car to lower income jobs in the Consortium's area who cannot always afford the books of tickets.

35- For example, in 2022 under the Consortium's proposal such a commuter would face an increase of £1 a trip (£4.50 - £5.50) or £10.00 a week whilst, under the Ferry Company's original proposal, the incremental approach the increase would be 0.15p (£4.85 - £5.00) or £1.50 a week. The Ferry Company's revised proposal would mean that, instead, this increase would be implemented gradually over the next 4 years until the fares reach parity at £5.50 in financial year ending 2026.

36- In the following financial year ending 2027 the same would happen, under the Consortium's proposal the increase would be £10 a week while the Ferry Company's increase would be £1.50 a week.

37- The ferry company has therefore rejected this element of the Consortium's proposal, replacing it with small annual rises.

### **National Trust (NT)**

38- It appears that the NT proposal is for a single year and it therefore envisages that this public inquiry will have to be held every year, alternatively that the Ferry running costs including wages and fuel will be kept at the same level going forward.

39- There are three fundamental issues with the NT proposal:

i. The Company, because it has been established by statute, and has statutory restrictions on its pricing, cannot engage in "trial period" on fares or flexible modals or variable pricing.

ii. It proposes that the cheapest fares be in place at the "prime commuter times". The entire concept of "off peak" travel is to persuade customers to use the vehicle at less busy times.

iii. It lacks any evidence at all as to where the proposed additional 106,926 vehicle journeys per year that are necessary to achieve the same return (on the NT figures) are going to come from. As such it appears to be highly speculative. Optimistic speculation cannot be a proper basis for the responsible running of a company which is so important to the community, and whose future must be secured by realistic analysis of the current financial position and actual customer base.

40- The company is governed by a legal mechanism setting its prices. If it wishes to vary them it has to make a formal proposal, submit expert evidence and then pay for representation at an inquiry. In practice it also engages in a lengthy public consultation. That takes time, this application was submitted in February 2020, and has incurred significant costs. The process rules out flexible fare models and trial periods. Repeated

applications for fares are also therefore undesirable which is why the ferry company is proposing a 12 year arrangement.

- 41- The NT proposal states that “most regular users are still likely to avoid the ferry at busy times”. The regular users are the commuters, such as the NT author who uses the “ferry at prime commuting times throughout the year”. They will not use the cheaper tickets in the “middle of the day during low season”. They will use them to commute. The NT is therefore proposing that commuters, at peak times will pay not the current £140/£136 a month but £80 a month (40 trips). This actually set out as the first objective in the NT’s conclusion, reducing the commuter price from £136 to £80. This loss of £60/54 a month per commuter will not be made up by a 7% increase in passenger numbers even if that increase was possible (which is very doubtful).
- 42- The Ferry Company has provided traffic volume figures as part of its submission from April 2009 to March 2020. The average vehicle crossings in a non-refit year in the last 6 years was 758,506 and in a refit year 708,764. As set out in the proposal the historical traffic volume data (see Appendix 7.2 that shows the trend to be fairly constant) have proven to be very accurate in preparing previous forecasts.

### **Green options**

- 43- It is not correct to say that no exploration has been made of the green alternatives. The Company has engaged Naval Architects who have advised both on the current technologies and the technologies that may be developed in the future. This needs to be assessed in light of the fact that the chain technology already makes the Bramble Bush Bay a particularly low fuel and so environmental option. The reality is that until more is known about the likely available options closer to the replacement date any research at this point will be incomplete and any firm commitment about a possible replacement pre-mature.
- 44- The references to the comparable green ferries in the NT statement do not set out the full picture.
- 45- In respect of the Pentland Ferry, there is nothing particularly remarkable about this design. It may be low fuel consumption but offers no green technology as it uses 4 oil engines giving 2996 kW of power. The LED lights are now used on most news vessels.
- 46- The Ellen may be powered by batteries, but still has a diesel drive system. The development has been problematic and the batteries have had to be replaced. It cost €21.3m, 40% more expensive than a conventional diesel vessel, and received €15m EU funding. There were also significant costs installing the shore side electrical infrastructure.

47- Fjord1 is a fleet of 75 vessels being retro fitted with electric propulsion. They enjoy economies of scale (the hulls were built in Turkey and outfitted in Norway), but were still paid for in part using Norwegian Government incentives for low carbon and low nitrogen oxide (NOX) emissions. There are no comparable UK grant schemes.

## **Land**

48- The value placed on the road by the company's expert in the application is £3.42m. That valuation is supported by the evidence at the previous inquiry that a replacement cost was "no more than £3 million" (Studland PC submission). It is the opinion of the Company's valuer that a perpetual interest vested by statute is akin to a freehold. This must be right. The Ferry Company (which built the road) can use and has to maintain the road exactly in the same way as a freeholder owner. There is no practical distinction. If the Company's shares were to be sold this perpetual right to use the road would be one of the assets of the Company which would be used to value the shares and it along with the other company assets would pass to the new shareholders.

49- The Directors do not accept the NT view that they have submitted evidence of a "gross over-valuation of the land assets" to the inquiry.

50- The Ferry Company does not need to establish an "easement" over the road as part of its evidence. It has perpetual interest vested by statute.

51- The remaining assets are the other site works, the causeway, the buildings, miscellaneous land and Bramble Bush Bay.

## **Studland**

52- The remaining assets are the other site works, the causeway, the buildings, miscellaneous land and Bramble Bush Bay. The directors do not consider that the Studland PC proposal that local residents should have unlimited travel for £20 a year is feasible. The scheme would place a very considerable administrative burden on the company both in issuing the permits and checking them. Further it would inevitably mean very substantial increases in fares for residents just outside the area or those who could not produce documents (such as renters) who use the ferry regularly. Those same significant fare increases would discourage the discretionary tourists/day trippers from travelling. That would inevitably damage the interests of local tourist businesses and cause greater road congestion.



**Conclusion**

53- Whenever the Company proposed stepped toll increases in the past it has always bettered on the undertaking it has given in that regard and would hope to do the same going forward. The preservation of the service for passengers and staff is our priority.