



# **Report to the Secretary of State for Transport**

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## **THE BOURNEMOUTH-SWANAGE MOTOR ROAD AND FERRY ACTS 1923 & 1986 AND THE TRANSPORT CHARGES &c. (MISCELLANEOUS PROVISIONS) ACT 1954 PROPOSED REVISION OF TOLLS**

Date of Inquiry: 21 April 2009

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**CASE DETAILS**

- The application is made by the Bournemouth-Swanage Motor Road and Ferry Company, under Section 6 of the Transport Charges &c. (Miscellaneous Provisions) Act 1954.
- The effect of the proposal, if approved, would be to revise the toll charges for use of the ferry.

**Summary of Recommendations: Subject to final verification of financial market conditions and the minimum discount for books of 50 tickets for cars being set at 20%, I recommend that a confirmatory Tolls Order be made as proposed.**

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**1. PREAMBLE**

- 1.1. On 21 April 2009, I held a public local inquiry in Studland Village Hall, Dorset, for the purpose of considering the application [Document ('Doc') 1a(4)] by the Bournemouth-Swanage Motor Road and Ferry Company ('the Company'), submitted to the Secretary of State under cover of its letter dated 11 September 2008 [Doc 1a(3)], for an increase in toll charges for use of the Bournemouth-Swanage Ferry.
- 1.2. At the commencement of the inquiry there were 9 objections outstanding but 10 objectors appeared at the inquiry.
- 1.3. The main grounds of objection are:
  - The overall increase in tolls over the six-year period from April 2004 would be excessive
  - Because many living to the west of the ferry have to commute daily to Poole and Bournemouth for work, the social impact would be unfair
  - The discounts currently available for pre-paid books of tickets should not be discontinued but increased
  - Given the importance of tourism to the Swanage area, the increased charges for most vehicles would deter visitors, so that the general economy in the area would be seriously affected
  - By comparison with water crossings elsewhere, the toll charges would be excessive
  - The increased charges for pedestrian and cyclists would work counter to Government policy on public fitness: such users should travel free
  - The valuation of the Company should not be based on net asset value. The road should not be included in its assets for valuation purposes
- 1.4. The Company confirmed at the inquiry that it had complied with all the statutory requirements with respect to the application.
- 1.5. This report contains a brief description of the ferry and its surroundings, the gist of the cases presented and my conclusions and recommendations. Lists of inquiry appearances, documents and the proposed toll increases are attached as appendices to this report.

## 2. DESCRIPTION OF THE FERRY AND ITS SURROUNDINGS

- 2.1. The ferry is a chain-link drawn vessel, which crosses approximately 350 metres of water at the mouth of Poole Harbour. Poole and Bournemouth lie to the north and east of the Poole Harbour respectively. The village of Studland lies about 5 km to the south of the ferry, with Swanage lying some 5 km beyond Studland.
- 2.2. The journey from Swanage to Poole or Bournemouth using the ferry involves a distance of about 14 km or 21 km respectively.
- 2.3. It is possible to avoid using the ferry by driving round the western side of Poole Harbour via Wareham. This involves journeys of about 31 km to Poole or 38 km to Bournemouth.

## 3. THE CASE FOR THE COMPANY

The material points are:

### Statutory and Historical Background

- 3.1. The Company was set up under the provisions of The Bournemouth-Swanage Motor Road and Ferry Act 1923 ('the 1923 Act') [Doc 1a(11)]. Ferry services began in July 1926. The tolls permitted at that time are set out in the 1923 Act. Subsequent Acts in 1928 [Doc 1a(12)], 1956 [Doc 1a(13)] and 1986 [Doc 1a(14)] modified various provisions regarding the Company's powers, including its ability to raise finance and charge tolls for use of the ferry.
- 3.2. Toll charges are currently regulated by Section 6 of the Transport Charges &C. (Miscellaneous Provisions) Act ('the 1954 Act') [Doc 1a(10)], as amended by the Bournemouth-Swanage Motor Road and Ferry Act 1986 ('the 1986 Act') [Doc 1a(14)]. Under these regulations, the toll charges provide revenue for the day-to-day running costs of the Company, items of capital replacement and a reasonable return on investment.
- 3.3. The original steam-driven ferry was replaced in 1958 by a larger, diesel-electric powered, vessel. This was itself replaced in 1994 by an even larger diesel-hydraulic powered vessel, the "Bramble Bush Bay".
- 3.4. In 1983 the Company was purchased by Silvermist Properties (Chelmsford) Limited ('SMP'). In 1995 the Group was restructured, with the Ferry Company and SMP becoming direct subsidiaries of a new holding company, Fairacres Group Limited.
- 3.5. When SMP took over the ferry undertaking, it was in a badly run-down condition, a Closure Notice having been served on the Company by the Health and Safety Executive. Since 1983, a huge investment has been made by the Company, including the replacement of the offices and connection of public utilities. The slipways at North and South Haven have been widened and largely rebuilt, together with new tollbooths, an automated toll collection system and a roundabout to provide for the safer turning of vehicles. Under the current ownership, the hours of operation of the ferry and the number of crossings have been increased. The

programme of continuous investment and improvement culminated in the order of the new ferry in 1992.

- 3.6. Since 1983, SMP and the Fairacres Group have ploughed over £5 million into the Company. This investment has secured its future and will ensure a first class service for present and future users. It has also secured the employment of 22 full-time, 7 part-time and up to 7 seasonal employees.

## Tolls

- 3.7. The Toll Application can be found at Doc 1a(4). The existing and proposed tolls are shown at paragraph 2.2 of the application. As can be seen, the toll for large passenger vehicles (carrying more than 16 persons) would remain unchanged. However, it should be noted that the figure "17" for this class of vehicle in the application was a misprint; the Company wishes to maintain this at "16", as in previous years and as shown in the advertisement detailing the application and placed in local newspapers [Doc 1c].
- 3.8. As it would now no longer be possible to stage the new charges as from 1 April 2009 (as suggested in Appendix 8 to the application), they would be staged from 1 July 2009 but with the full increase still taking effect from 1 April 2010.
- 3.9. An Order for increasing the ferry tolls was last made by the Secretary of State for Transport on 5 July 2006 (the previous Order, made on 15 April 2004, having been the first in over six years). The current application is based on the need to be in a position to replace the ferry in due course whilst providing a reasonable return on investment to shareholders.

## Ferry Replacement

- 3.10. The present vessel was brought into service in January 1994. It should last for some 25-30 years (ie, until 2019-2024), depending on whether it has a life-extension refit.
- 3.11. Although an alternative (but longer) route, via Wareham, is available for the residents of Swanage and Purbeck to get to Poole and Bournemouth, the Company recognises that the ferry is a very important element of the local transport infrastructure. In the public interest, it is therefore important that a replacement vessel is available when the "Bramble Bush Bay" reaches the end of its life. Given this and the need for a two-year period for research, design and construction of the new vessel, during which staged payments would be required, it would be prudent for the Company to have built up an adequate ferry replacement reserve (FRR) by 2017. This does not reflect any change in the engineering assessment since the previous public inquiry in April 2006.
- 3.12. Two sets of financial forecasts have been made for the nine-year period 2009 to 2017. One, at Appendix 2a to the application [Doc 1a(4)], assumes no increase in the tolls; the other (Appendix 2b) assumes that the toll increases applied for are approved.
- 3.13. The value of the FRR as at 31 March 2008 was £2.495 million. At the time of the application, the Directors were advised that the cost of replacing the ferry in June 2008 would be £6.179 million. Assuming a rise

of 3% per annum, the cost would therefore be £7.828 million by 2017. [Doc 1a(4) para 2.4] An average of £592,000 per annum over the next 9 years would be required for the vessel to be replaced in 2017. However, if a reasonable level of dividend is to be paid to the shareholders [see 3.19 below], and taking into account the £2.348 million that will be incurred in 2009 for substantial work repair work to the slipways, this will not be achievable.

- 3.14. Even with approval of the application, the shortfall in the FRR by 2017 would be about £3.448 million. This would have to be found by seeking additional funding at the time the ferry is replaced. [Doc 1a (4) para 2.5]
- 3.15. The latest advice [Doc 1b] is that new-build prices for such specialised tonnage in 2009 will remain in line with prices for 2008, at about £4.95 million (£5.98 with diesel-electric drive). However, whilst the HM Treasury website forecasts the CPI rising to 2.6% by 31 March 2010, the cost of replacing this type of vessel is likely to continue to rise by about 3% per annum thereafter. While it is possible that the life of the "Bramble Bush Bay" could be as high as 30 years, this would almost certainly require a life-extension refit at about five years before the end of its life, during which it might be cost-effective to replace the existing diesel-hydraulic propulsion with a more expensive diesel-electric system. Indeed, such a refit is likely to be required by the requirements of the Lloyds Register, driven partly by recent emission legislation.
- 3.16. The cost of such a refit is likely to be of the order of £490,750 were the existing power units to be retained, or £537,700 were they to be replaced by the more efficient Volvo D9MG engines driving 50kW alternators and P24 Hydraulic pumps [Doc 1b].

### **Shareholders' Return on Investment**

- 3.17. The only reasonable basis for calculating returns is the value of the Company were it to be sold today. Past valuations, referred to by some objectors, are not relevant to the calculation of a reasonable rate of return.
- 3.18. Although the value of the Company as at 31 March 2005 was assessed as being £11,180,000 [Doc 1a(9)], it is now likely to be about 5% less, effectively raising the forecast return from 5.9% to 6.2%. Assuming the economy stabilises by 2010, it is likely to be 2012-2013 before the value of the Company returns to its 2005 level.
- 3.19. The 1986 Act recognises that the operation of the ferry service should provide a "reasonable return" to the Company's owners. As there are no set guidelines as to what constitutes "reasonable", this will always be subjective judgement. Certain banks are currently offering fixed interest rates of between 5.3% and 6.4% for deposits made with notice periods of between 1 and 12 months; companies giving PFI support to the Government generally achieve a 7-9% level of profit whilst those on the HSBC list of infrastructure companies achieve about 7-8 %. The Directors believe that a higher return on investment should be expected, bearing in mind the business risks attached to running such an operation and that the Company's assets are not readily convertible into cash. An appropriate return would be at the lower end of the 7-8% bracket.

Nevertheless, for the purpose of financial projections, the dividend return has been capped at 5.9% of net asset value.

- 3.20. It should not be forgotten that a depressed economy can affect usage of the ferry by the public and thus depress profits as well as costs.
- 3.21. The table at Appendix 4a to the application shows the forecast returns on investment and dividends were no increase in tolls to be permitted. The return on investment (Profits After Tax as a percentage of Total Net Assets) would decrease from 7.1% in FY 2010 to 5.1% in FY 2016 (the last non-refit year in the forecast period). These rates of return would be less than those offered by many retail bank deposit accounts. For years in which a refit occurs (2011 and 2017), the return would fall from 3.7% to 2.4%.
- 3.22. Appendix 4b shows the forecasts were the increases applied for to be permitted. In this case, returns would increase from 8.3% in FY 2010 to 10.1% in FY 2016. For the refit years, the return would increase from 6.4% in FY 2011 to 7.5% in FY 2017. The forecast dividends as a percentage of total net assets would be about 5.8-5.9% up to 2017; by comparison, the actual percentage over past years (2003-2008) has varied between 2.8% and 3.2%.
- 3.23. It is clear from the above that the tolls need to be increased in order for the operation to provide a reasonable return to its shareholders.
- 3.24. Using data from [www.ukdata.com](http://www.ukdata.com), Appendix 5 to the application compares the Company's actual and forecast returns with those from other companies in similar industries. When compared with the 76 companies within SIC Code 61101 'Passenger Sea and Coastal Water Transport' (see Appendix 5c to the application), the return achieved by the company has not met the median point and has been below the lower point in the majority of years. Even with a toll increase, the return is only forecast to move nearer to the current median point over the next nine years and will not exceed it.
- 3.25. Appendix 5b to the application compares the Company's data with the 276 companies within SIC code 61200 'Inland Water Transport'. This shows the Company's return to be around the median point since 2004 and is forecast to decline assuming no toll increase. Even with a toll increase, the return is not forecast to be far above the median point.
- 3.26. While other ratio comparisons have not been summarised graphically, the data table at Appendix 5a shows that the Company's Profit Before Tax as a percentage of sales is much more favourable than other companies in similar industries. It also shows that the company's sales as a percentage of total assets is much lower than these companies. This would suggest that the Company is more effective at controlling its costs and generating profits from the resources it purchases. At the same time, it requires a much larger investment to generate revenue than other companies in similar industries.
- 3.27. Appendix 5d shows in graphical form all five ratios covering actual data from 2004 to 2008, and forecast data from 2009 to 2017, assuming no toll increase. For all five ratios, a declining trend can be seen across the time period. Appendix 5e shows the same ratios but for the forecast data

assuming an increase in the toll rates. A slowly increasing trend can be seen across this time period.

- 3.28. The major slipway works undertaken recently were an unexpected expense, resulting from a report by engineering consultants indicated that a complete failure of one was imminent and that repair of the other would be required shortly. The cost (£2.75 million) of the repairs was over budget because the damage was even more extensive than at first realised.
- 3.29. The Company's objectives are to provide and maintain a reliable ferry service for the public whilst ensuring a reasonable return on investment for shareholders. If the tolls are not increased, the Company will not be able both to provide for the future replacement of the ferry and to generate a reasonable return to shareholders. The application for a toll increase is therefore fair and reasonable.

### **Comparative Charges on Other Ferries**

- 3.30. The Torpoint ferry is owned by the local council, which is able to subsidise the ferry from income generated by the Tamar Bridge. The Company has applied for subsidies in the past, but without success, and sees little prospect of succeeding in the future.
- 3.31. The fare of £4.50 for the King Harry Ferry is an example of what happens when charges are not regulated by Act of Parliament.
- 3.32. The Dartmouth Ferry charges £3.70, although a maximum of £4.50 is allowed.

### **Book Discounts**

- 3.33. In response to the suggestion by the Swanage Town Council that a minimum discount be set, the Company undertakes to continue discounts through the sale of books of tickets, with prices as indicated in Appendix 8 to the application. However, a special discount for local residents would be difficult and expensive to implement.
- 3.34. If the discount allowed on books of 50 tickets for cars were to be maintained with the profit level unchanged, the cash income per annum from cars would have to rise by £16,516 – the equivalent of 1.75p per car.
- 3.35. The proposed increased charge for motorcycles and pedal cycles would be the first increase since 1997.

### **Charges for Cyclists**

- 3.36. Cyclists are able to purchase books at a discount. To allow cyclists to travel free would be unfair on other ferry users, whose costs would have to rise further to compensate. To charge £1.00 for both cyclists and pedestrians, as now proposed, would ease the job of collecting tolls.
- 3.37. To allow free passage for cyclists would necessitate higher charges for other users. This would be unfair. A family group ticket would be difficult and costly to administer.

## **Car Parking**

- 3.38. In that it is costly to maintain, the Company-owned road can been seen as a liability as well as an asset. However, the ferry could not operate without it and it has a notional value of about £4.3 million. It is therefore right that this appears as an element in the valuation of the Company.
- 3.39. The Company introduced parking metres along the road (which were in use for about 18 months) some 15 years ago. However, after objections from local residents, the local Planning Authority (Purbeck District Council) refused permission for this change of use of the land and the Company was forced to cease charging for parking and remove the meters. There is no reason to believe that the Authority would change its mind now. In any case, the sums raised from parking during the 18 months amounted to no more than £15,000 – the equivalent of less than 1.75p per car using the ferry. Payment for car parking would therefore do little to meet local residents' concerns.

## **Availability of Information**

- 3.40. Notices of the Company's application were published in the Evening Echo and the Advertiser on 16 October 2008 [Doc 1c].
- 3.41. On 19 March 2009, notices of the inquiry were posted on the Ferry and Studland Notice Boards, in the Swanage, Poole and Bournemouth Town Halls, at the toll booth, at both ends of the ferry and on the Company's website.
- 3.42. On the same date, copies of the application were made available in the Ferry Office, the Swanage Library and the Canford Cliffs Library.

## **4. THE CASE FOR THE OBJECTORS**

The material points are:

### **4.1. The Swanage Town Council**

- 4.1.1. On 27 October 2008, the Council voted, unanimously, to object to the proposed increase in ferry tolls. It did so because the ferry is an important factor in the local economy.
- 4.1.2. Although the general area is outwardly affluent, parts are classified as being amongst the 25% most deprived areas in the country. The greatest opportunities for employment and college education lie in the Poole/Bournemouth conurbation, to which the ferry forms a vital link. Given the considerable costs of parking, etc, the proposed increase in ferry charges would have the potential to impact seriously on the viability of employment for those living in the Swanage area.
- 4.1.3. Whilst the Council welcomes the intention not to increase the charges for coaches, the general economy of the area could still be seriously affected should the proposed increases affecting other vehicles deter visitors to the area.

- 4.1.4. An increase of 16%, albeit staged over two years, is difficult to justify, as would be the proposal (Appendix 8 to the Application) for further increases by 30% over the next five years.
- 4.1.5. The Council is particularly concerned over the discounts allowed when books of tickets are purchased. These are not included in the advertised Order, although Appendix 8 to the application shows a planned increase of 27% in the price of a book of 10 tickets by 2011, reflecting a reduction in the discount of from 15% to 10 %; on a book of 50 tickets, the discount would be reduced from 20% to 15%.
- 4.1.6. Councillors are concerned that the discount might be further reduced or even discontinued in the future. A minimum level of discount should be guaranteed by the Company. A larger discount should be introduced for local residents; the Council's experience in introducing a residents' car parking scheme suggests that this would be quite practicable.
- 4.1.7. The Council would prefer all charges to remain unchanged but, if this is not compatible with maintaining a high quality ferry service, it asks that either the increases be reduced from those proposed or that a compromise be adopted in the form of an increased discount for local residents.

#### **4.2. CTC Wessex District Association**

- 4.2.1. There is a strong case for allowing free passage for foot passengers and cyclists, as is the case elsewhere in Europe and further afield. Even ignoring the associated administrative/staff savings, this would require no more than about 30p to be added to the charges for powered traffic [Doc 2e].
- 4.2.2. Failing this, charges should be reduced by obtaining subsidies from local councils (as is done in the case of the Torpoint Ferry).
- 4.2.3. It is unfair that four cyclists have to pay more than a car. It is even more illogical to charge the same for a motorcycle as for a pedal cycle. The charges for cyclists and pedestrians should at least be frozen, if not reduced, whereas the charge for motorcycles could be doubled.
- 4.2.4. It is also illogical that books of as little as 10 tickets can be bought by motorists but foot passengers have to pay £76.50 for a minimum of 100 tickets.

#### **4.3. Individual Objectors**

##### ***Rate of Toll Increases***

- 4.3.1. Until April 2006, the toll for cars and any other vehicles carrying up to 16 persons was £2.60. This was then raised to £3.00, an increase of some 15%. The increase to £3.50 from 1 April 2010 would be a further 16.67%, representing an overall increase of nearly 35% over 4 years. This would be far in excess of the rate of inflation and would be unreasonably high, especially at a time of such general economic difficulty for residents. It could also damage tourism in the Purbeck area
- 4.3.2. The additional cost of using the alternative route via Wareham is about £2.50, which implies that the existing ticket for a car is about 20%

overpriced. As it is effectively a “green” service by reducing fuel consumption, the Department for Transport should consider making a grant to the ferry. [Doc 1c]

### ***Charges for Pedestrians and Cyclists***

- 4.3.3. The proposed increases for cyclists and pedestrians would not support the Government’s desire to reduce car travel, improve fitness and reduce obesity. Such passengers should be carried free of charge.
- 4.3.4. To set the charge for pedal cycles at a level where four cyclists would pay more than a vehicle with up to 16 passengers would be unfair. A ‘family group’ ticket should be devised.

### ***Calculation of Return on Investment***

- 4.3.5. The asset valuation used by the Company is out-of-date in that it does not reflect the current ‘credit crunch’, which is likely to last about 5 years. The valuation should not include that of the road. The forecast of interest rates suggested by the Company is unreliable, as is the assertion that the value of the Company has reduced by only 5% since 2005.
- 4.3.6. In any case, that return should not be based on net asset value but on the sums invested by the Company to date. It is unreasonable for toll increases to be based on the value of a company that has increased substantially since it was bought.
- 4.3.7. Given that part of the 2012 Olympic Games is to be held in Weymouth, the Company’s assertion that revenues are likely to remain static over the next few years is unreasonable.
- 4.3.8. The slipway works were by no means necessary and have, in any case, been inappropriately accounted for. Amortization over 50 years would have given a truer picture. [DOC 2j]

### ***Provision for Future Replacement Vessel***

- 4.3.9. As there has been no fundamental change in the engineering assessment since the previous inquiry into toll charges in 2006, the reduction in the time required to build up funding for a replacement vessel, by 2017 as against the assumed 2024 at the time of the last inquiry, is not justified. Accumulating the required funds over such a compressed timescale would be the equivalent of requiring an 80% increase in the rate of build-up over this period.

### ***Effect of Proposed Toll Increase on Local Residents***

- 4.3.10. In winter, Swanage has a population of about 10,000; local villages account for an additional 5,000. The cost for residents to commute daily to Poole or Bournemouth is high - about £1,440 per annum. Tolls are also costly for those needing to visit relations in hospital.
- 4.3.11. In light of the general economic problems in the country, the tolls should be frozen completely. In any case, discounts for local residents are far too low. By comparison with the 15% now to be offered by the Company, the Cowes ferry offers 42% for a book of 20 tickets. The

Torpoint Ferry gives a 50% discount for commuters and the King Harry Ferry 58%.

- 4.3.12. To cater for local commuters, higher discounts should be given on bigger books of tickets. The cost of such an approach would not be more than about 25p per car and might indirectly reduce the price of houses in the Swanage area by reducing the number of second houses in favour of local people being able to afford to buy houses locally.
- 4.3.13. The majority of residents in Studland village do not benefit from visitors – rather the reverse. Local residents should qualify for a significant discount, at a fixed rate. With the introduction of a larger discount for local residents, the objections to the toll increase would largely disappear.

### ***Charging for Car Parking***

- 4.3.14. A 6% return per annum on the road, with a declared value of £4.3 million, should generate over £250,000 per year for works. The 1986 Act allows the Company to lay out, maintain and manage parking [s7(b)], make bylaws [s8(1)b], prohibit or restrict parking [s 8(2)(b)], and to enter agreements with the Local Highway Authority as necessary [s10(1)].
- 4.3.15. The Company has rights not only over the 25-feet [7.69 metres] width of the metalled road from Studland but over a total width of 50 feet (15.38 metres), albeit including any ditches. During the summer months, it is not uncommon for 200 or more cars to be parked alongside the road between Studland and the ferry, drivers thus avoiding having to pay to use the expensive National Trust car park. Charges should be made for such parking; this would more than off-set the increased discounts being requested by local residents.

### **4.4. Written Objections and Representations**

- 4.4.1. In one written objection [Doc 2j], it is suggested that the Company has not sufficiently informed residents and ferry users of its intentions. Notices should have been posted both on the ferry and at the ferry booths.
- 4.4.2. No other matters are raised in the written objections and representations [Docs 2a-2j] that are not covered above.

## 5. CONCLUSIONS

- 5.1. Bearing in mind the submissions and representations I have reported, I have reached the following conclusions, reference being given in square brackets to earlier paragraphs of this report where appropriate.

### Statutory Criteria

- 5.2. The statutory criteria against which the application must be judged are set out in Section 6(3) of the Transport Charges &c. (Miscellaneous Provisions) Act 1954:

"In making any order on an application under this section, 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 investment of the Company in the motor road and ferry as defined in section 2 of the Bournemouth-Swanage Motor Road and Ferry Act 1986*<sup>1</sup>."

### Ferry Replacement

- 5.3. The existing vessel came into service in 1994. Its life is expected to be between 25 and 30 years. [3.10] The need for sufficient income to build up an adequate FRR is entirely consistent with the provisions of the 1954 Act. Because of the need to allow time for research, design and construction, the Company believes it would be prudent to build up an adequate ferry replacement reserve (FRR) by 2017 [3.11]. The Company's estimate of the cost of replacing the existing vessel in 2017 (based on cost inflation being 3% from 2010 onwards) would be about £7.828 million [3.13].
- 5.4. The objectors, on the other hand, argue that there is no need to bring forward the target date for the build-up of the FFR by seven years by comparison with that suggested at the previous public inquiry into toll charges in 2006 [4.3.9].
- 5.5. As there has been no change in the engineering assessment since that inquiry [3.11], I have considerable sympathy for the objectors' view. Furthermore, a life-extension refit would extend the life of the vessel to 30 years (2024), albeit at a cost of up to £537,000 in the meantime [3.16], and while I accept that some expenditure will need to be made two years in advance of delivery, I am not convinced that it is necessary to build up a full FRR by 2017. Nevertheless, I note that, even with approval of the full increase in toll charges, the FRR will still be about £3.448 million short of the replacement cost in 2017, which would require an additional £592,000 a year to correct. [3.13, 3.14] Even if a life-extension refit is

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<sup>1</sup> The words in italics are an amendment to the 1954 Act, made by the Bournemouth-Swanage Motor Road and Ferry Act 1986 Section 23(2)(b).

adopted, the full replacement cost is bound to be incurred by the 30-year point.

- 5.6. I conclude that, although based on what seem to me to be slightly pessimistic forecasts of future cost inflation [3.13 v 3.15, 4.3.3], the Company's assumptions about the build-up of the FRR in its forward financial projections are not unreasonable.

## **Return on Investment**

- 5.7. The objectors suggest that the calculation of a reasonable return on investment should be based on the sums invested in the Company to date [4.3.6]. However, I consider that the only reasonable basis on which to base the calculation is that of the value of the company were it to be sold [3.17]; in my view, it would be wrong not to include that of the road owned by the Company [3.38, 4.3.5]. I conclude that the Company is justified in basing its assessment of a reasonable return on its net asset value.
- 5.8. Although the company has capped the dividend return at 5.9% in its financial projections [3.19], the 5% reduction in its value since 2005 effectively raises even this to 6.2%, a level further above the median for such businesses than originally assumed by the Company in its application [3.18, 3.25, 3.27]. In any case, such projections do not commit the Company to holding dividends down to 5.9% in practice. I notice that forecasts based on approval of the application (Appendix 4b to the application) show returns, at up to 10.1%, being significantly above those actually declared over the years 2003 - 2008 [3.22]. Whilst the Company suggests that an appropriate rate of return would be 7% or more [3.19], given the downturn in the general economy since the application was made, even this judgement seems to me to represent a slightly generous view of the market.
- 5.9. For comparison of returns with other companies, the Company has chosen 'Passenger and Coastal Water Transport' [3.24] and 'Inland Water Transport' [3.25]. However, I was give no satisfactory answer as to the past years over which the yellow median lines on the two relevant graphs, at Appendix 5b and 5c to the application, had been calculated or, in particular, why these should be projected into future years at precisely the same level. Given current economic conditions, such levels projected into the future seem to be rather optimistic.
- 5.10. Given that the company's proposals would place it above the median for such businesses and take no account of the 2012 Olympic Games in Weymouth [4.3.7], I conclude that the rate of return allows at least some room for manoeuvre in setting toll charges [see 5.21 below].

## **Levels of Toll Charges**

- 5.11. The objectors suggest that, taken in conjunction with previous toll increases, the proposed charges would be excessive [4.1.4, 4.3.1]. In any case, they suggest that the additional £2.50 cost of using the alternative route to Poole or Bournemouth from Swanage indicates that even the existing ticket is overpriced by 20% [4.3.2].

- 5.12. I note that no increase is proposed for coaches carrying more than 16 persons, which should help the tourist industry in Purbeck, and that the proposed increase for pedal and motor cycles would be the first in 12 years [3.35, 4.1.3].
- 5.13. Like that for cars, the charge for a pedal cycle covers the cyclist(s), whether tandem or single. The charges for pedestrians, and pedal/motorcycles would be identical, thus having the advantage of simplifying the collection of tolls [3.36, 4.2.3]. Whilst I recognise that the relationship between pedal cycle and car tolls may appear a little anomalous to those who cycle in groups, the room taken up by four bicycles and riders is not dissimilar to that of a car and I conclude that the proposals in this regard are not unreasonable.
- 5.14. In my view, the full cost of driving the average car the additional 17 km involved in the route via Wareham [2.2, 2.3] is significantly higher than the £2.50 suggested by the objectors [4.3.2], so that use of the ferry is cheaper. Were this otherwise, I suspect that many fewer would use the ferry.
- 5.15. Toll charges are effectively set by the requirements of section 6(3) of the 1954 Act, as amended by the 1986 Act. The company has recently been faced with major, and unexpected, slipway works, costing some £2.75 million [3.28]. Given this, the rise of about 16% by comparison with those set three years ago is not, in itself, unreasonable.
- 5.16. The fact that the Company's projections are based on an assumption that there will be further increases in toll charges of 30% over the next five years [4.1.4] is not a matter directly related to this application. Further increases would require another application to be made and would be scrutinised at that time.

### ***Book Discounts***

- 5.17. In response to the Swanage Town Council's concern that discounts might be discontinued in the future [4.1.6], the Company undertakes to continue to give discounts through the sale of books of tickets [3.33].
- 5.18. The discounts allowed by other such ferry crossings, whose circumstances (physical, legislative and availability of subsidies) will inevitably be different, is not directly relevant to an assessment of what would be reasonable under the 1954 Act for this ferry. [3.30-3.32, 4.3.11]. The Company has applied for subsidies in the past, but without success, and sees little prospect of succeeding in the future [3.30].
- 5.19. The objectors argue that toll charges should be frozen completely. Failing this, they feel strongly that the discount allowed to local residents on books of pre-paid tickets for cars should be maintained at a higher level than indicated in Appendix 8 to the application, being kept at least at existing levels [4.1.5, 4.3.10-4.3.13].
- 5.20. Parts of the general area are classified as being amongst the 25% most deprived areas in the country [4.1.2]. Many of the residents in the Swanage area rely on the ferry to get to their employment or education in Poole and Bournemouth, as do many having to visit hospitals in those towns. Given the economic and social importance of the ferry to these

residents [4.1.3], particularly at a time of economic difficulty nationally, there does seem to be a strong case for continuing discounts for regular car users at existing levels (20% for books of 50). This would cost the Company about £16,516 per annum, the equivalent of only an additional 1.75p per car [3.34].

- 5.21. Given that the Company does seem to have some room for manoeuvre [5.9], I conclude that the setting of a minimum discount of 20% for books of 50 car tickets should be made a condition of the proposed new scale of charges being approved.
- 5.22. On the other hand, whilst I acknowledge the Government's desire to encourage improved public fitness, I see little justification for a commercial company allowing free passage or significantly increased discounts for foot passengers and cyclists, unless this were to be supported by public subsidy (which seems unlikely to be feasible) [3.30, 3.36, 4.2.1, 4.2.2, 4.3.3].

### **Charges for Car Parking**

- 5.23. 15 years ago, the local planning authority declined to allow the Company to use its land alongside the road for car parking, so that parking meters had to be removed. Nor would the advantage to those using the ferry be great. There is little prospect of the authority changing its mind now. [3.39, 4.3.14, 4.3.15] I conclude that the theoretical possibility of introducing such charges is not one the Secretary of State should give much weight to in determining the application.

### **Availability of Information**

- 5.24. Given the public notices placed in local newspapers, the availability of the application to the public and the various notices of the inquiry on display and on the Company's website, I am satisfied that the public interest has not been prejudiced by information on the Company's proposals not being available. [3.40-3.41, 4.4.1]

### **Modification of Application**

- 5.25. In view of the typing error in the application, it would be necessary for classes of passenger vehicles to depend on whether the vehicle carries up to 16 passengers or more than 16, rather than the "17" quoted in the application [3.7]. The correct figure was reflected in all public notices.

### **Overall Conclusions**

- 5.26. The evidence submitted by the Company suggests that, at the time of making its application, the increase in the maximum tolls to be charged for use of the ferry in its proposals, whilst high, was not unreasonable and was consistent with the statutory framework governing the operation of the ferry. However, there have been rapid changes in the general economy since the application was submitted to the Secretary of State and, even with the benefit of the public inquiry, I am not confident that the evidence submitted reflects fully recent movements in the financial markets and that the proposed increase in toll charges may not be premature.

- 5.27. Thus, in the absence of substantive evidence on the impact of the current economic downturn, I am not satisfied that the basis on which the application for the toll increases has been formulated continues to remain sound. I do not, therefore, consider that the Secretary of State should approve the proposed toll increases without first verifying that the increased likely returns on investment [5.8, 5.9] represent current and probable future market conditions.
- 5.28. In view of the economic and social impact of the charges on many living in the Swanage area, I recommend that, even were the Secretary of State to accept the Company's proposals, this be made conditional on the minimum discount for books of 50 car tickets being set at a minimum of 20% of the single ticket price.
- 5.29. I have had regard to all other matters raised, whether at the inquiry or in written representations, but they do not alter the conclusions I have reached.

## **6. RECOMMENDATIONS**

- 6.1. I recommend that, before accepting the Company's proposals, the Secretary of State verifies that the proposed returns on investment are consistent with market conditions.
- 6.2. If the Secretary of State is content that this is the case, and subject to the Company undertaking to set the minimum discount for books of 50 car tickets at a minimum of 20% of the single ticket price, I recommend that the Secretary of State makes a Tolls Order pursuant to Section 6 of the Transport Charges &C. (Miscellaneous Provisions) Act 1954 to implement the proposals contained in the Company's application submitted on 11 September 2008.

*A L Roberts*

## **INSPECTOR**

### **Appendices:**

- A. Appearances
- B. List of Documents
- C. Proposed Toll Increases

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## OBJECTORS

For the Swanage Town Council:

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For the Cyclists' Tourists' Club (CTC) Wessex District Association:

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CTC Wessex District Association  
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## Individual Objectors:

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Mr John South	Valley View The Glebe Studland Dorset BH19 3AS
Mr Robert Suhr	Oakfield Heath Green Road Studland Dorset BH19 3BS
Mr Roger Tipple	5 Hill Crest Durlston Road Swanage Dorset BH 19 2HS

## DOCUMENTS

### 1. Documents Submitted by the Company

- a. Folder containing
  - (1) Summary of Relevant Statutory Provisions
  - (2) Letter Requesting & Notice of Public Inquiry
  - (3) Instigating Letter & Notice of Toll Application
  - (4) Toll Application, dated 11 September 2008
  - (5) Audited Financial Statements for the year end 31 March 2006
  - (6) Audited Financial Statements for the year end 31 March 2008
  - (7) Balance Sheet & Profit & Loss for the 11 Month Period ending 28 Feb 09
  - (8) Planned Maintenance & Replacement Costings from Burness Corlett
  - (9) Valuation Report by Gerald Eve
  - (10) Transport Charges &c (Miscellaneous Provisions) Act 1954 (extract)
  - (11) The Bournemouth Swanage Motor Road and Ferry Act 1923
  - (12) The Bournemouth Swanage Motor Road and Ferry Act 1928
  - (13) The Bournemouth Swanage Motor Road and Ferry Act 1956
  - (14) The Bournemouth Swanage Motor Road and Ferry Act 1986
- b. Burness Corlett Three Quays letter, dated 15 April 2009
- c. Company letter to DfT, dated 30 October 2008 enclosing advertisement of application

### 2. Written Objections and Representations

- a. Swanage Town Council letter, dated 25 November 2008
- b. Studland Parish Council letter, dated 12 November 2008
- c. Purbeck Tourism letter, dated 10 November 2008
- d. Dorset Cyclists' Network letters, dated 23 November 2008, 22 January 2009 and subsequent, undated, letter
- e. CTC Wessex District Association letter, dated 23 November 2008
- f. D C Chesworth letter, dated 24 November 2008, and e-mail sent 12 April 2009 08:38
- g. Mr Paul M Turner letter, dated 24 November 2008
- h. John Glazier letter (undated)
- i. Mr M J Potter letter, dated 14 November 2008
- j. David Cater letter, dated 20 April 2009

## Appendix C

**PROPOSED TOLL INCREASES**

(to be phased in from 1 July 2009 to 1 April 2010)

Class of traffic	Current toll £	Proposed maximum toll
Pedestrian (Sandbanks to Shell Bay)	0.90	1.00
Pedestrian (Shell Bay to Sandbanks)	Nil	Nil
Pedal or motor cycle	0.80	1.00
Passenger vehicle ≤ 16* persons (car)	3.00	3.50
Passenger vehicles > 16* persons (coach)	8.00	8.00
Goods vehicles ≤ 3,500kg (cars)	3.00	3.50
Goods vehicles > 3,500kg & ≤ 20,000kg (trucks)	6.00	7.00

\* Number of persons amended from 17 to 16 – see para 3.7