The Planning Inspectorate

Report to the Secretary of State for Transport

by John Wilde C.Eng M.I.C.E.

an Inspector appointed by the Secretary of State for Transport

Date: 21 January 2015

THE BOURNEMOUTH-SWANAGE MOTOR ROAD AND FERRY

ACTS 1923 & 1986

AND THE

TRANSPORT CHARGES &c. (MISCELLANEOUS PROVISIONS) ACT 1954

PROPOSED REVISION OF TOLLS

Inquiry held on 11 November 2014

File Ref: DPI/G1250/14/10

TABLE OF CONTENTS

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 Recommendation:

I recommend that a confirmatory Tolls Order be made as proposed.

PREAMBLE

The Inquiry

1. On 11 November 2014, I held a public local Inquiry in Studland Village Hall, Dorset, for the purpose of considering the application by the Bournemouth-Swanage Motor Road and Ferry Company ('the Company'), submitted to the Secretary of State under cover of its letter dated 30 January 2014[1], for an increase in toll charges for use of the Bournemouth-Swanage Ferry.

Responses

2. At the commencement of the Inquiry there were twelve outstanding objections including one each from Swanage Town Council and Studland Parish Council, the latter containing a petition signed by members of the parish. One objection was received immediately prior to the opening of the Inquiry. There was also one letter of support received.

3. The Company confirmed at the Inquiry that it had complied with all the statutory requirements with respect to the application.

4. The main grounds of objection can be summarised as follows:

   - The charges are too high for the distance and expensive compared to other ferries. The proposed charges represent an increase of 28.5% for motor vehicles and passenger vehicles.
   - There are not enough discounts for locals.
   - There are no facilities for paying with debit or credit cards.
   - The proposed increases would damage the local economy in terms of tourism, local jobs and the delivery of goods.
   - The proposed discount books are not actually included within the Order.
   - The proposed increases will lead to people switching to the alternative road route which will increase pollution.
   - The funding required for the new ferry should come from efficiency improvements and the owners.
   - The valuation of the company's assets is spurious.

This report

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.

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[1] Document A in the Inspector's file

DESCRIPTION OF THE FERRY AND ITS SURROUNDINGS

6. 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 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.

7. The journey from Swanage to Poole or Bournemouth using the ferry involves a distance of about 14 km or 21 km respectively.

8. 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.

THE CASE FOR THE COMPANY

The materials points are: (references are to paragraphs in the Company's Application unless otherwise stated, (appendix E in the Inspector's papers))

Statutory and historical background

9. The Company was set up under the provisions of The Bournemouth-Swanage Motor Road and Ferry Act 1923. Subsequent Acts in 1928, 1956 and 1986 changed and modified provisions governing the Company's powers, its ability to raise finance, regulate its business in general and to collect tolls for the maintenance and improvement of the undertaking[2].

10. Toll charges are currently regulated by the Transport Charges &c (Miscellaneous Provisions) Act, 1954, as amended by The Bournemouth-Swanage Motor Road and Ferry Act 1986 to provide for the day-to-day running costs of the company, items of capital replacement, and a reasonable return on the investment[3].

11. The Company began operating the present service in July 1926. A larger, diesel-electric powered vessel replaced the original steam-driven ferry in 1958. This vessel was itself replaced by an even larger, diesel-hydraulic powered craft, the "Bramble Bush Bay" in January 1994.

12. Originally the Company's shares were quoted on the London Stock Exchange; this ceased when a property company acquired a majority shareholding in the early 1960s and the Company became an asset of the parent company. In 1983 the Company was purchased by Silvermist Properties (Residential Developments) Limited (SMP). In 1995 the Group was restructured to give a much clearer division of its activities with the Ferry Company and SMP becoming direct subsidiaries of a new holding company, Fairacres Group Limited.

13. When taken over by SMP the whole of the ferry undertaking was in a badly run down condition, having been grossly neglected for many years by its previous owners, and a Closure Notice had been served on the Company by the Health & Safety Executive. This shows the very low level of care and

[2] Paragraphs 1.1 & 1.2
[3] Paragraph 1.3

maintenance that had been applied to the ferry by its previous owners. The same neglect had also affected all the Company's premises and other facilities[4].

14. Since 1983 there has been a huge investment in the undertaking. This has included providing new conventionally built offices in place of the original timber huts, providing a supply of both mains electricity and water, and proper sanitation and heating. The slipways at North and South Haven have been widened and new tollbooths constructed. This programme of almost continuous investment and improvement culminated in the order for the new ferry "Bramble Bush Bay" in 1992.

15. In 2008 and 2009 the company embarked upon a major project of significant cost in relation to substantial repair work to the slipways. This was the first time such major repairs had been required since before 1983. Costs of £402k were incurred in 2008 and £2,171k in 2009, bringing total slipway repairs to £2,573k. This resulted in a significant loss for 2009 of £1,927k.

16. In 2012 and 2013 the company upgraded its toll collection systems at a cost of £80,000. The new systems, using the latest technology, improve the ease and speed of collecting tolls. Overall, since 1983, and aside from the original purchase price, the present owners have ploughed back over £7.5million into the Company. This investment secured the future of the Company, it has reversed the gross neglect and mismanagement of earlier years, it will ensure a first class service for present and future users and, not least, it has secured the employment locally of 19 full time, 10 part-time and up to 8 seasonal employees[5].

The proposed tolls

17. The proposed tolls are set out in paragraph 2.2 of the Company's application statement. There would be no increase in tolls for pedestrians, pedal or motor cycles. The toll for cars and light goods vehicles would rise from £3.50 to £4.50 and that for a coach from £8.00 to £9.00. Larger goods vehicles would see their toll rise from £7.00 to £8.00. Tolls were last raised in 2009 and if they had kept pace with inflation it would be £4.20 for a car at the present time and £4.70 by 2017[6].

18. These increases would be phased in across three years for cash customers, such that the maximum allowable toll will not come into effect until 1 April 2017. In the case of bulk tickets for cars and goods vehicles, these will have rates of discount that will increase by up to 28.89% until 2017. This will have the effect of keeping the annual increase roughly in line with the RPI rate that is estimated to be 3.0%[7]. The cost of ticket books is currently discounted by between 10% and 15%[8]. The Company has always stuck to its published undertakings in

[4] Paragraphs 1.4.1 – 1.4.7
[5] 1.4.8 – 1.4.11
[6] Verbal evidence to the Inquiry
[7] Taken from *Forecasts for the UK economy: A comparison of independent forecasts, April 2014*, available from HM Treasury's website. See the Company's statement page 9 A2.1
[8] Paragraphs 2.3/4.1

respect of the application of discounts[9]. There are four other privately owned cable and chain ferries in Britain. Of these, Dartmouth charge £4.70, the King Harry Ferry in Cornwall charges £5.00, and the Reedham Ferry in Norfolk costs £4.00[10].

Reason for the application

19. The Company has two main objectives:

- From a public service point of view, to be able to provide and maintain a safe, reliable and cost effective ferry service.
- To provide a reasonable return on the investment.

20. To realise the first objective, it is necessary to replace the ferry when needed and for the new ferry to be of a more modern and efficient design than the present with a lower environmental impact. This is achieved through the owners' on-going reinvestment in the ferry company and the value of the ferry service itself[11].

21. In order to maintain the high standards of service achieved under the present ownership it will be necessary to replace the ferry in approximately 7 years. It is projected that the replacement cost of the ferry in 2021 will be £9.009m. This is based on an independent professional estimate of the cost of replacing the ferry obtained in 2008 of £6.179m with an allowance for the costs to rise by 3% per annum.

22. The ferry replacement reserve at 31 March 2014 was £1.543m. Therefore, in order to be in a position to bring the ferry replacement reserve to the projected amount of £9.009m to replace the ferry in 2021, total transfers per annum will need to average £1.067m. This will not be possible in some of the years if a reasonable level of dividend is also to be paid. The shortfall would have to be found by seeking additional funding at the time the ferry is replaced[12].

23. It is the Directors' responsibility to ensure that the owners receive a satisfactory level of return for their investment in the company. Dividends for the six year period are set to increase by no more than 2.4% per annum, resulting in an additional 1p per share per annum on dividends for the year ended March 2014 of £699,675. The proposed dividends represent an average return of between 6.2% and 6.5% of the Company's net asset value. This will go some way towards achieving this responsibility but means that the target replacement reserve for the ferry will not be met[13].

24. The submitted projected balance sheets of the company at each financial year end show that appropriate investments (represented by the cash funds on hand) do not match the value of the Ferry Replacement Reserve. As at 31 March 2014,

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[9] Verbal evidence to the Inquiry
[10] Verbal evidence to the Inquiry
[11] Paragraphs 4.3/4.4
[12] Paragraphs 3.1.1 – 3.1.3
[13] Paragraph 3.1.4/2.6

cash on hand in the balance sheet was £1.125m compared to the replacement reserve value of £1.543m, a shortfall of £418k[14].

25. A shortfall will arise as the company's cash on hand will fluctuate dependent upon the daily working capital requirements of the business. In addition, the transfer to the Ferry Replacement Reserve is an appropriation of profit and not a cash transfer (the cash available being the profit for the year adjusted for non revenue amounts such as corporation tax paid; dividends paid; fixed assets bought and sold; and changes to debtors, creditors and stocks)[15].

26. If this application is successful, the forecast cash on hand will rise to £3.201m at 31 March 2020. This is a cash shortfall of £84k compared to the projected value of the ferry replacement reserve at that time of £3,285k but significantly below the expected cost of replacing the ferry of £9.009m in 2021[16].

27. The Ferry Company's 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, what constitutes "reasonable" will always be subjective. Registered investment advisor Ibbotson and Associates analyse long-term performance of stocks, bonds, treasury bills and inflation. Arithmetic average annual return on 100% bonds investments, which would be deemed low-risk, is calculated at 6.1%. It is the Company's belief that, bearing in mind their assets are not as readily convertible into cash, along with the business risks attached to running such an operation, a higher return on investment (profits after tax as a percentage of total net assets) should be expected than that achievable through investing in bonds[17].

28. A common perception may be that this operation is a low risk business. From an investor's perspective, this may well be the case when it is compared to certain other businesses and industries. But this does not mean it is risk-free. Moreover the current owners manage the risk through responsible ownership and on-going re-investment[18].

29. If no toll increase is granted then the average return on investment for the forecast period covering the financial years ending 31 March 2015 to 2020 would be 4.0%. However, if tolls are increased, the average return on investment would rise to 7.8%[19].

30. From the owners' perspective, dividends received represent their true return on investment, and the above rates of return without a toll increase are less than that achievable through investment markets. It follows that in order for the operation to provide a reasonable return to its owners in future, an increase in toll charges is necessary[20].

[14] Paragraph 3.2.1
[15] Paragraph 3.2.2
[16] Paragraph 3.2.3
[17] Paragraphs 3.3.1/3.3.2
[18] Paragraph 4.7
[19] Paragraphs 3.3.4/3.3.5
[20] Paragraph 3.3.6

31. A further way to assess whether the Company's return on investment is reasonable is by way of comparison with other companies in similar industries[21].

32. When compared to the companies classified as 'Passenger Sea and Coastal Water Transport' the return achieved by the company has not met the median point. Even with a toll increase, the return is only forecast to reach the current median point in two of the next six years and this is only during non-refit years[22].

33. Comparing the Company against companies classified as 'Inland Water Transport', the return is again below the median point. Again even with a toll increase, the return is forecast to only reach the median point in two of the next six years[23].

34. The Company's profit before tax as a percentage of sales is much more favourable than other companies in similar industries. However, the company's sales as a percentage of total assets is much lower than these other 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[24].

35. The Company have based their projected traffic volumes on the last six years traffic volume data, making the assumption that these will remain static. Based on the 2014 AA motoring costs of average fuel cost per mile, in the non-refit years fuel costs of approximately £2.9m are saved for the public, for cars alone, when compared to driving around the ferry route. This is equal to total expected turnover in the next non-refit year[25]. If the Government fuel allowance of 45p per mile is applied to the alternative road route the cost of a return journey would be £22.50[26].

36. The application clearly demonstrates that, in the medium to long term, the Company cannot provide for the future replacement of the ferry and generate a reasonable return if tolls are not increased. In light of this the Company feels that the application for an increase in toll charges is fair and reasonable[27].

THE CASE FOR THE OBJECTORS

Swanage Town Council

The material points are: (Taken from their statement read out at the Inquiry)

37. The ferry is used regularly by local residents commuting to work to the larger towns of Poole and Bournemouth. It is a vital link to the larger towns. When added to the cost of parking the proposed increase in ferry tolls would seriously impact on the viability of their employment. The proposed increase would also

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[21] Paragraph 3.3.8
[22] Paragraph 3.10
[23] Paragraph 3.3.11
[24] Paragraph 3.3.12
[25] Paragraphs 4.2/4.5
[26] Verbal evidence to the Inquiry
[27] Paragraphs 4.6/4.8

affect local students who drive to college in Bournemouth and Poole, a position that they are increasingly likely to find themselves in following the reduction of bus services.

38. Swanage has pockets of deprivation and those residents from hard pressed households or those of modest means would be particularly affected by an increase that amounts to almost 30%.

39. An area of particular concern is the 14% increase over the next five years in the price of books of 10 and 50 tickets. Whilst a significant level of discount is available for these ticket books, it is not easy for many ferry users to find a lump sum of over £150 to take advantage of these.

40. The proposed increases could also seriously affect the tourist trade if tour operators were deterred from visiting the area. It is noted that the charge for a coach will increase to £9 by 2017. This, combined with the proposed increase in tolls for goods vehicles could have a harmful effect on the general local economy. It would also be likely to affect deliveries to local shopkeepers and deter tradesmen from outside the area undertaking work for local residents. Following the last increase in 2009 the average number of truck crossings reduced significantly from between 500-900 per month to only 100-250 per month.

41. The Council acknowledge that the 30% increase in car fares would be phased in over three years. However, the annual increases of 8.6%, 7.9% and 9.8% appear difficult to justify in the current economic climate, where inflation is at an historically low rate. Furthermore, there is no guarantee that the proposed discounts could not be reduced or even discontinued in the future.

42. The Company accept that there is the possibility of reaching a 'price point' ceiling and the fact that the average number of users of the ferry by car in non-refit years has declined by 48,000 then a further increase in fees may not be in the long term interests of a sustainable ferry service.

Studland Parish Council

The material points are: (taken from their statement read out at the Inquiry and letter of 4 April 2014)

43. The proposed charges would be too high for the distance to be covered, there are no discounts proposed for local residents, the discounts that are proposed are limited and the Company provides no facility to pay by debit or credit card.

44. The proposed increases will adversely affect the local economy and also elderly persons, those of fixed incomes, persons travelling to work, and residents accessing the essential services of retail, transport, hospitals and other public services. The proposed increases will raise the cost of living in Studland.

45. There is significant local concern about the proposed increases as indicated by the petition signed by 135 residents.

Written objections:

Mr Michael Ferguson

The material points are:

46. Many other ferry companies give a reduction of up to 50% for locals and do not insist on selling 100 tickets in order to obtain the reduction.

JayLee Refridgeration Ltd

The material points are:

47. The increase in tolls would be an additional cost to the business which may have to be passed onto customers. Local residents should receive discounts of around 50%, similar to those offered by other toll companies.

Ms Mandy Engelsma

The material points are:

48. At £9 per return journey many people will feel compelled to make the long drive around the harbour, an additional 25 miles each way, rather than pay the ferry. This will in turn increase pollution to the environment in an area of outstanding natural beauty, and also increase congestion on the roads.

Mr David Willis

The material points are:

49. An increase of 29% is excessive during a prolonged period of austerity, with low interest rates and low inflation. The Dartford Crossing costs £2 and even allowing for the discount available if buying a book of tickets the chain ferry would be very expensive compared to this.
50. A monopoly provider should be subject to a pricing regime that incentivises efficiency improvements. Dividend increases should only come out of efficiency improvements when customers themselves have benefited from such efficiency savings.
51. If the projected reserves in the balance sheet will not amount to sufficient equity to provide a replacement vessel then the owners should inject more capital (by taking lower dividends in the interim) or bring in outside capital.

Mrs Julie Dyball

The material points are:

52. The proposed increase would be more acceptable if the Company provided better discounts for local people. The present discount on 100 tickets has recently been reduced resulting in each crossing costing £2.97 rather than the previous £2.75.

Ms Sarah Silman

The material points are:

53. There should be a fixed discount for locals.

Mr Nick Knollys

The material points are:

54. The proposed increases are excessive. They are justified on a return against investment in fixed assets including the value of the land in the Company's possession. This is a spurious method of valuation and is used to reduce the apparent percentage return to an "acceptable" level in order to appear reasonable. Measured against the operational costs the percentage profit and dividends are excessive by reasonable standards of investment returns.

55. There is also no mechanism by which the proposed phasing of the increases can be regulated, leaving the Company free to implement the increases earlier if they wish to.

Ms Katherine Appleton

The material points are:

56. The Company have not considered finance from sources other than toll charges. As a person that uses the ferry every day the proposed increase would result in an additional cost of £10 per week or £500 per year, a significant amount. The proposed increase could also result in more people using the road route and could also deter holiday makers.

57. The District Council could subsidise the cost of the ferry or the Company could provide better discounts for local people.

Mr Patrick and Mrs Margo Lawler

The material points are:

58. The proposed increases are unreasonable and do not take into account the regular support given by local residents, who are the captive mainstay traffic all year round. The Company has targeted them for the greatest increase. The proposed increases take no account of low pay rises.

LETTER IN SUPPORT OF THE PROPOSED INCREASES

Mr Robin Brasher BA

The material points are:

59. The proposed charges will be similar to those levied by other chain ferry operators. The King Harry Ferry in Cornwall charges £7 for a single car journey and the Reedham Ferry in Norfolk charges £4. The ferry company needs to have a reserve of capital to replace the existing ferry when it wears out, to secure the long term future of its staff and to provide its shareholders with a reasonable return on their investment.

60. Market forces will determine whether people will continue to use the ferry or to drive around Poole Harbour.

61. The Company should consider investing in improved public relations, especially when the ferry breaks down, and should adopt a more professional approach in

social media. It should also provide covered accommodation for foot passengers and cyclists at both sides of the ferry.

The report continues on the next page

INSPECTOR'S CONCLUSIONS

62. Taking into account the submissions and representations above, I have reached the following conclusions, reference being given in square brackets to earlier paragraphs of this report where appropriate.

63. **Statutory Criteria**

64. 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.

65. "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*[28]."

66. The objections summarised above cover a number of issues which I will consider in due course. Firstly however I will deal with the need for a replacement ferry and the financial position of the Company.

Principle and cost of a replacement ferry

67. The current vessel has been in operation since 1994. The Company consider that it will be necessary to replace the ferry with a more modern vessel in approximately seven years. By that time (2021) the current ferry will have been in service for 27 years. The cost of the replacement ferry has been estimated by the Company as £9.009m, which is derived from an independent professional estimate given in 2008 and adjusted for inflation[21] of 3%. At the Inquiry the question was asked as to why a more up to date estimate had not been obtained. The Company indicated that such estimates were costly and that they had consequently decided it prudent to utilise the previous estimate. The 3% adjustment for inflation is based on data obtained from HM Treasury's website[18].

68. I consider that replacement of the ferry after 27 years service to be a completely reasonable aspiration, if not necessity, and have been given no significant evidence that would indicate otherwise. Similarly, the derivation of the cost of a replacement ferry seems to be based on sound and reasonable assumptions and again I have been given no significant evidence that would lead me to consider otherwise.

Financial position of the Company

69. I turn now to the financial position of the Company. The Company's accounts dated 31 March 2014 show the Ferry Replacement Reserve (FRR) stood at

[28] 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).

£1.543m[24]. To bring the FRR to the required £9.009m by 2021 would therefore require transfers to the fund to average £1.067m per annum. The Company consider that this would not be possible whilst at the same time returning a reasonable level of dividend[22]. However, one objector disagreed with the Company on the this matter and considered that either the dividends should come out of efficiency savings or should be reduced, to effectively inject more capital[50,51]. I will therefore consider the question as to whether the dividends forecast for the next seven years are reasonable.

70. The Company points out that the Directors have a responsibility to ensure that the owners receive a satisfactory level of return for their investment[23] and the Ferry Company's 1986 Act recognises that the operation of the ferry service should provide a 'reasonable return' to the Company's owners[27].

71. The company's proposed increase in dividends would see them rise by no more than 2.4% per annum with an average return of between 6.2% and 6.5% of the Company's net asset value[23].

72. To estimate what would be a reasonable rate of return for shareholders the Company have taken two approaches. Firstly they have looked at the long term performance of bonds investments which are deemed to be low risk. The average annual return on these is shown by investment advisor Ibbotson and Associates to be 6.1%. The Company point to their belief that the Ferry enterprise, although low in risk compared to some other businesses, is not risk free. They consider that the risk is managed through responsible ownership and on going re-investment and point to the fact that the assets of the Company have no alternative use value[27,28].

73. The second way that the Company use to assess whether or not the proposed dividends would be reasonable is by comparison with other companies in similar industries. When compared to the companies classified as 'Passenger Sea and Coastal Water Transport' even with a toll increase, the return for the Company would only reach the current median point in two of the next six years and this is only during non-refit years. Comparing the Company against companies classified as 'Inland Water Transport', with a toll increase, the return is forecast to only reach the median point in two of the next six years[32,33].

74. I agree with the company that the enterprise can be considered to be low in risk compared to some other businesses. However, it is certainly not risk free, and the proposed rate of return of between 6.2% and 6.5% is only slightly above that for the low risk Bonds investment. Furthermore, it has been shown that the return would not be out of line with similar industries. I also note that even with the proposed toll increases the target replacement reserve will not be met[23]. In light of these factors I conclude that the proposed dividends are reasonable. It would therefore be unreasonable to expect the Company to reduce the dividends to inject more capital.

75. With respect to increasing the FRR through efficiency savings, the Company made clear at the Inquiry that they are constantly looking for ways to improve efficiency but that this is not as easy as it seems from the outside. For example the ferry's engines have to run all the time, which means that savings cannot be made by cutting down on the number of crossings. Overall, from the information before me, I do not consider that the necessary funding for the FRR could be

achieved through efficiency savings. As regards obtaining funding from other sources as suggested by one objector[56] it was made clear at the Inquiry that other than its parent company the Company has no sources of funding other than the tolls it charges, and I note that the parent company has already invested £7.5m into the Company since 1983.

76. One objector considered that the proposed increases have been justified on a spurious method of valuation in that the return in investment has been set against the investment in fixed assets including the value of the land[54]. However, the Company's accounts are subject to independent audit each year and I note that the scope of such audits includes *whether the accounting policies are appropriate to the companies circumstances*[29]. I am satisfied therefore that the valuation method employed is correct for the circumstances.

Discounts

77. Several objectors considered that the discounts proposed by the Company were insufficient, particularly with respect to local residents[39,453,46,47,52]. The Company point out that for the purchase of bulk tickets for cars and goods vehicles the rate of discount will increase by up to 28.89% until 2017[18]. More specifically I note that for books of ten tickets for cars the present discount is 10% and that this will rise to a peak in 2017 of 24.44% before settling at 20% in 2019. For books of fifty tickets for cars the discount would rise from 15% at the present time to 24.44% in 2019. There would be similar rises for goods vehicles and coaches. The Company points to the fact that buying tickets in bulk would keep the overall price rises in line with the estimated rate of inflation of 3.0%[18].

78. These to me seem to be reasonable levels of discounts that will go some way to offset the overall increases. Furthermore, it is reasonable to assume that local residents, in using the ferry regularly, will be best placed to take advantage of these discounts. Whilst I am sure that local residents would like a discount of 50% as suggested by one objector[46], I have been given no evidence to show that this is an industry standard or any rationale as to why one particular private company should be expected to treat locals differently from other companies serving the same geographical area.

79. I acknowledge that many residents could struggle to find the lump sum of over £150[39] for the book of fifty tickets, but there is the option of the book of ten tickets which is a more affordable alternative.

The level of the proposed tolls

80. Several objectors consider that the overall increases are too high in a prolonged period of austerity and are unaffordable to residents from hard pressed households[38,41,45,49,56,58] and students[37]. Others commented that the proposed increases would be detrimental to the tourist trade and the wider economy in general[40,44, 56] and be harmful to employment prospects[37]. The cost of taking a private car on the ferry would rise by 28%, the same as the increase for taking a goods vehicle. The cost for coaches would rise by 12.5% although there would

[29] Financial Statements Appendix G of the Inspector's Papers.

be no increase in tolls for pedestrians, pedal or motor cycles. On the surface these seem considerable increases.

81. However, the Company have proposed that the increases would be phased in over three years[18]. They also pointed out at the Inquiry that tolls were last raised in 2009 and that had they kept pace with inflation it would cost £4.20 for a car to use the ferry at the present time, and would be £4.70 by 2017[17]. The actual proposed toll at 1 April 2017 would be, if approved, £4.50 for a car, and with the use of a book of ten tickets £3.40 at the same date. To my mind this puts the proposed increases in some form of perspective.

82. Whilst there would undoubtedly be some impact on the wider economy this could be said for virtually any price rise in any industry, and I have been supplied with no evidence to show that the impact of the proposed increases in this case would be of a level of magnitude such that the proposed increases should be disallowed. As regards the tourist industry, I am not persuaded that in the great scheme of things a £1.00 price rise in the cost of a ferry journey would have a major impact on the choice of holiday destination.

83. The Company are seen by some as a monopoly[50]. However this is not entirely the case as there is an option for driving around the western side of Poole Harbour to Poole or Bournemouth[8]. The Company pointed out at the Inquiry that if the Government fuel allowance of 45p/mile was applied to the alternative road route the cost saving in using the ferry would be £22.50 per return journey[35]. Whilst I acknowledge this to be a rather crude comparison it does once again put the proposed increases in perspective.

84. I note that goods vehicle crossings went down following the last increase in tolls[40]. This may well be as direct consequence of the rise but the cost involved in using the alternative route is a factor that local businesses will take into account. The Company are aware that they have a price point ceiling after which use will decline[42] generally and it is not in their interests to price themselves out of the market. Nor do I consider that it is the Company's responsibility to set its prices purely with the aim of protecting the environment[48]. The usage of the ferry will be down to market forces which will in turn dictate the level of car usage along the alternative route.

85. One objector commented that the proposed increases would be out of proportion to the distance actually covered by the ferry[43] whilst another objector pointed to the lower cost of another ferry[49]. At the Inquiry the Company pointed to, amongst others, the Dartmouth Ferry in Devon at £4.70 and the King Harry Ferry in Cornwall at £5.00 as both being more expensive than theirs[18]. It seems to me that no two ferries are the same and to compare ferries merely on price somewhat simplifies the matter. Having said that, I do note that the cost of the other ferries is not dissimilar in scale to that proposed.

86. The Company do not provide a facility for payment by debit or credit cards[43]. However this is not to my mind a matter directly related to the proposed increase in tolls.

87. One objector was concerned that the proposed discounts could not be guaranteed[41] whilst another commented that the proposed phasing of the increases could not be regulated[55]. However, I note that the Company's

application to the Secretary of State states that *it is not the company's intention to fully implement this increase in tolls charged until 1 April 2017,* whilst at the Inquiry the Company indicated that they always keep to their undertakings[18].

Summary of conclusions

88. I have found the aspiration to replace the ferry in 2021 to be completely reasonable. I have also found the proposed dividends to be reasonable in relation to other similar enterprises and to businesses that generate a similar level of risk. Furthermore, I have been supplied with little evidence to suggest that the Company's working and accounting methods are in any way incorrect.

89. Whilst the levels of the proposed tolls and the discounts are seen by many as inappropriate in the current economic conditions, I have concluded that taken as a whole they cannot be considered to be unreasonable. 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.

RECOMMENDATION

90. I recommend that a confirmatory Tolls Order be made as proposed.

John Wilde

Inspector

APPENDIX A – APPEARANCES

<u>For the Company</u>:

Mr Michael Kean	The applicant
He called	
Mr Nick Purchase	
Mr Neil McCheyne	
Ms Tracy Nicol	All from the Company
Mr Kevin Thomas	

<u>Objectors</u>:

Dr Martin Ayres	
Mr Mike Whitram	Both representing Swanage Town Council
Mr Peter Bowyer	Representing Studland Parish Council

<u>Individual objectors</u>:

Mr Nicholas Knollys	
Ms Julie Dyball	
Mr Richard Gledhill	
Mrs Elliot	All local residents
Mr Michael Potter C.Eng, M.I.C.E. M.C.I.H.T.	
Mr David Hogsflesh	
Mr Andrew Parsons C.Eng LLB	

APPENDIX B - DOCUMENTS

<u>Folder containing Inspector's papers including</u>:

A Notification letter from the Company to the Secretary of State dated 30 January 2014 of toll application.

B Public notice dated 27 February 2014 notifying public/users that the Company has applied for tolls increase.

C Public notice dated 25 September giving details of the Public Inquiry.

D Letters from objectors and one supporter.

E Main toll application business case.

F Directors report, financial statements and management information year ending March 2011.

G Directors report, financial statements and management information year ending March 2012.

H Directors report, financial statements and management information year ending March 2013.

I Directors report, financial statements and management information year ending March 2014.

J Planned maintenance and replacement costings.

K Valuation report by Gerald Eve.

L Statutory Provisions – Section 6(3) Transport Charges &c. (Miscellaneous Provisions) Act 1954 & Section 26 Bournemouth-Swanage Motor Road & Ferry Act 1956.

M Transport Charges &c. (Miscellaneous Provisions) Act 1954.

N Bournemouth-Swanage Motor Road Ferry Act Act 1923.

O Bournemouth-Swanage Motor Road Ferry Act Act 1928.

P Bournemouth-Swanage Motor Road Ferry Act Act 1956.

Q Bournemouth-Swanage Motor Road Ferry Act Act 1986.

R Letter dated 3 June 2014 from DfT to PINS requesting the services of an Inspector to oversee Inquiry.

Other documents:

1 Statement read out at the Inquiry on behalf of Studland Parish Council.

2 Statement (with appendices) read out at the Inquiry on behalf of Swanage Town Council.