

Isles of Scilly Route Partnership



Isles of Scilly Link

Major Scheme Bid – Addendum 1

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Major Scheme Bid – Addendum 1

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EXECUTIVE SUMMARY

This project is seeking £26.5m of Central Government funding together with £6.5M of European funding to develop and maintain the sea link from the Isles of Scilly to the mainland. This funding will secure harbour infrastructure facilities required at both ends of the route and a new combined passenger & freight vessel to operate the route.

The original bid was submitted to DfT in August 2004. The preferred option was identified as low cost harbour improvements together with a combined passenger/freight vessel. A BCR of 1.51 was identified in the original bid. Subsequent iteration between consultants and DfT led to an agreed BCR of 1.8 in November 2004

DfT requested clarification in terms of state aid, the model for delivery, timescales and deliverability of the project elements, benefit cost ratios, and the funding requirements. Further work has been undertaken to address these issues and this addendum reports the findings.

State Aid (section 3.2)

Legal Counsel has been consulted regarding the state aid implications of the project. Grant for harbour improvements, as proposed, would not be caught by state aid provisions.

With regard to the proposed vessel procurement by the Local Authority, any Government grant to a Local Authority would be, in effect, a grant from one part of the State to another, and the rules relating to state aids would not apply.

It is with the making of a grant or loan to a company in the private sector that the question of State Aids arise. The 'Model for Delivery' identified by the Route Partnership involves a charter agreement between the operator and Local Authority, with gradual transfer of ownership to the operator as the funding reserve is built up. The model for this process has been assessed and it is not considered to be in contravention of State Aids.

Model for Delivery (section 3.3)

A preferred model for delivery has been identified in which the local authority procures the vessel on a competitive basis then charters to a specific operator. This approach facilitates a public/private sector partnership delivery model. Legal Counsel has been consulted, and advised that this model does not contravene procurement regulations or state aid provisions.

The model also facilitates:

- A long term sustainable service that builds up a reserve
- Securing public service outputs
- Securing the capital asset in the route

Timescales and Deliverability (section 2)

Naval Architects have carried out detailed vessel development work, confirmed the capital cost and specifications of the combined vessel, as proposed, and that it is deliverable within the current programme.

Harbour revision order applications are under consideration by the Secretary of State. Issues have been raised for discussion and agreement, but none of the consultation responses object to the harbours in principle. It is anticipated that consent will be granted in the spring of 2006. Subsequently, the harbour works will be achievable within the Objective One timeframe, subject to a funding announcement in the spring of 2006.

Economic analysis (section 4)

As required by DfT and GOSW, a review of the economic analysis has been carried out. Specialist consultancy services were procured to develop a passenger demand and mode choice model. Revealed and stated preference surveys were undertaken in the summer of 2005 as part of this commission.

The model predicts that the 'Do Minimum' scenario, in which the ferry is taken out of service in 2014 will create an 8% decrease in overall travel to the Isles by 2015 (all modes, all locations). The demand for day trips declines most substantially by 14.7%, and demand by staying visitors/residents drops relatively less (stay -5.3%, resident -9.6%).

A number of 'do something' scenarios have been tested against this model together with sensitivity tests of fare increases, reliability of survey responses and optimism bias. A BCR of 1.45-1.67 has been identified although sensitivity tests have shown that this could increase to as much as 2.8.

In addition to direct feedback on the 2004 bid, other questions have been raised, some of which will be addressed in this report.

Sunday sailings – these have been included in the sensitivity tests as a means of increasing overall ferry capacity and absorbing excess demand. The preference surveys reported this as desirable by visitors and residents, but unlikely, in itself, to generate additional trips. (See Appendix E).

Commercial gap analysis - This relates to the outstanding basic question of whether public sector funding is required on a commercial basis, and if so, how much?. This particular question is the subject of a commission currently underway on behalf of GOSW.

Disaggregation of the project – This has been considered but it has been determined that the optimum way forward is a single project containing low level improvements at the harbours and a combined vessel. (See Appendix G)

If funding approval is granted by April 2006 it will be possible to deliver the total project within the Objective One timeframe (2006-2008), before the vessels reach the end of their economic life (end of 2009).

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1 Introduction

1.1 Purpose of the Addendum

This addendum should be read in conjunction with the 'Isles of Scilly Link Major Scheme Bid'¹ (hereafter referred to as the 'Original Bid'). The previous study and bid is now supplemented by a stated preference survey and sophisticated modelling using state of the art methodology. The preferred and next best options identified in the 'Original Bid' have been reassessed. The results and revised benefit cost ratios are provided within this report. .

1.2 Summary of the main outputs from the 'Original Bid'

The 'Original Bid' was submitted to DfT in August 2004. It identified and discussed a number of options and ultimately assessed four of these options to determine their benefit cost ratios and to reveal the 'preferred' and 'next best' options.

The key economic outputs from the original bid are summarised in table 1.1 below.

Original bid options	St Mary's Harbour	Penzance Harbour	Vessel(s)	NPV (£'000)	BCR
1 <i>Next Best</i>	Low cost 1A	Low cost A	Separate vessels	+£4,937	1.20
2 <i>Preferred</i>	Low cost 1B	Low cost A	Combined vessel	+£12,672	1.51
3	Enhanced option 17	Low cost A	Separate vessels	-£10,110	0.60
4	Enhanced option 17	Low cost A	Combined vessel	-£1,227	0.95

Table 1.1 Options Matrix (extracts from original bid table 10.1)

Following the submission of the bid in 2004 further iteration of the economic model between DfT and Consultants led to an agreed BCR of 1.8 in November 2004

The preferred option comprises of low cost harbour improvements together with a combined passenger/freight vessel. The next best option was the same low scale harbour improvements but with separate passenger and freight vessels.

The combined vessel was the preferred of the stakeholders, as it offered operational efficiencies, as well as freeing up berthing space in the harbours for other uses.

In terms of the environment, safety, integration and accessibility, the combined vessel was able to satisfy all objectives.

For further information on the original appraisal refer to the 'Original Bid' section 10.

1.3 Feedback and Responses to the 'Original Bid'

Dft requested further study work and clarification

- State Aid Issues
- Model for Delivery
- Timescales and deliverability
- Benefit cost ratios
- Sunday sailings
- Funding requirements

Representatives from the Route Partnership met with the Minister for Transport in December 2005 and presented a vision for the project which addressed all of the above points. A copy of the presentation is given in Appendix A and copies of the correspondence between GOSW and the Route Partnership in Appendix C.

1.4 Further work undertaken since the 'Original Bid'

In response to the above queries, further development work has been undertaken since the submission of the 'Original Bid' and funding support has been provided by 'Objective One'.

- Legal Counsel advice on State Aid and other legal implications of various delivery models. Preferred model for delivery now identified (section 3).
- Project programme developed to achieve delivery within the time constraints of the European Objective One Programme (section 2.3);
- Further vessel development work to confirm deliverability, costs and timescales (section 2.1);
- Application for Harbour Revision Orders (section 2.2);
- Development of a mode Choice Model, using Stated Preference Surveys as recommended by DfT, to review the benefit cost ratios (section 4).

In addition to direct feedback on the 2004 bid, other questions were been raised in relation to this project, some of which will be addressed in this report.

Sunday sailings – these have been included in the sensitivity tests as a means of increasing overall ferry capacity and absorbing excess demand. The surveys reported as this as desirable by visitors and residents, but unlikely, in itself, to generate any more trips (see Appendix E).

Commercial gap analysis - This relates to the outstanding basic question of whether public sector funding is required on a commercial basis, and if so, how much?. This particular question is the subject of a commission currently underway on behalf of GOSW.

Disaggregation of the project – This has been considered but it has been determined that the optimum way forward is a single project containing low level improvements at the harbours and a combined vessel (see Appendix G).

2 Project Development

2.1 Vessel Development

2.1.1 Deliverability

Basic vessel parameters were established within the stage 1 technical investigation in terms of vessel length, beam, draft and operating power and these have been subject to a further study by Naval consultants to test the deliverability of a vessel to these design parameters and cost.

The study work confirmed that a vessel can be designed that would be able to operate up to 20 knots speed carrying 400-450 persons and capable of conveying freight and passengers. The key parameters determined by the preliminary study and further investigations are given in table 2.1 below. A report and outline drawing is provided in appendix B.

Vessel	Length	Beam	Draft	Dwt.	Power
Preliminary study	68m	11.25m	2.9m	300MT	3600KW
Further study	78m	12m	2.9m	250 to 300MT	3370KW (15 Knot) 6740KW (20 Knot)

Table 2.1 Comparison of key parameters for a combined vessel as determined by the preliminary study (stage 1) and the further study (stage 2)

Concern was expressed by GOSW regarding the deliverability of a vessel within time and budget and these were addressed in the study work. As an additional means of confirmation, a number of project specific questions were included in the prequalification questionnaire issued to Marine Consultants who expressed an interest in any forthcoming vessel development contract. The questions and responses are précised in table 2.2 below:

<p>Can a workable vessel be developed to the preliminary vessel parameters?</p> <ol style="list-style-type: none"> 1. speed is the primary concern. 20 Knots can be achieved although will be a challenge to achieve with this length and draft 2. the vessel dimensions should be fine tuned to reduce the pitch motion 3. an increase in vessel length would be advantageous as this reduces power requirements
<p>How can the efficiency of freight operations be improved?</p> <ol style="list-style-type: none"> 1. provide a large clear deck area, hydraulic crane and side door hatches 2. consider containerisation and ramped access assist with offloading freight 3. consider consolidation of freight away from the quay
<p>Is there capacity within EU shipyards to build this vessel to the anticipated timescale?</p> <ol style="list-style-type: none"> 1. There is capacity although cheaper prices may be obtained from outside EU 2. early engagement with a shipyard encouraged 3. some engines have long lead times so either procure early, accept a limited choice or delay delivery

Table 2.2 summary of PQQ Marine Consultant Responses

2.1.2 Costs

The preliminary vessel development and outline specification study (for the preferred combined vessel) included a more detailed estimated cost assessment of £17m. This is the same as the original cost estimate.

Separate vessel capital costs were also reviewed (less rigorously), and these are unchanged from the values given in the original bid submission.

A separate review of operational costs was also carried out by Naval Architects which led to some changes. The revised costs are summarised in table 2.3 and these values have been incorporated into the model. One significant increase in operational costs is due to a doubling of the cost of marine fuel since the time of the original bid. This has also been incorporated into the economic analysis.

OPERATING COSTS	Do Min	Option 1	Option 2	Option 3	Option 4
Passenger/ Combined Vessel		XXXX	XXXX	XXXX	XXXX
Harbour Dues - St Marys		XXXX	XXXX	XXXX	XXXX
Harbour Dues - Penzance		XXXX	XXXX	XXXX	XXXX
Operating Costs		XXXX	XXXX	XXXX	XXXX
Stevedore Costs		XXXX	XXXX	XXXX	XXXX
Total					
Freight Vessel	XXXX	XXXX		XXXX	
Harbour Dues - St Marys	XXXX	XXXX		XXXX	
Harbour Dues - Penzance	XXXX	XXXX		XXXX	
Operating Costs	XXXX	XXXX		XXXX	
Stevedore Costs	XXXX	XXXX		XXXX	
Total					
Option Total	XXXX	XXXX	XXXX	XXXX	XXXX
Harbour Dues - St Marys	XXXX	XXXX	XXXX	XXXX	XXXX
Harbour Dues - Penzance	XXXX	XXXX	XXXX	XXXX	XXXX
Operating Costs	XXXX	XXXX	XXXX	XXXX	XXXX
Stevedore Costs	XXXX	XXXX	XXXX	XXXX	XXXX
Total					

Table 2.3 Vessel Operating Costs (revised December 2005)

2.1.3 Competition

There is little evidence of competition for sea transport between Isles of Scilly and the mainland. Some information has been provided by the Isles of Scilly Steamship Company,

From 1990 to early 1992 a company called 'Fair Island Trading Co.' established a competing service for freight to the Isles. The service utilised an older vessel converted for freight use. The Steamship Company Director's report for year ended 31/03/92 recounts; 'Continued competition from the fair Island Trading Company reduced our freight income substantially'. According to current Steamship Co. personnel, the service ended in early 1992 when the vessel sank in the vicinity of the Isles. Verification of this information is currently being sought.

2.2 Harbour Development

2.2.1 Harbour Revision Orders

A Harbour Revision Order (HRO) is required to alter the harbour limits and reclaim land from the sea. An HRO provides the statutory consent to construct the 'wet works' (ie the quays and rock revetments). It should be noted however that some further planning consents may be required for any buildings on the quays.

In the context of this project, separate HRO's are required for St Mary's and Penzance. The application process is illustrated in figure 2.1 together with the current position in terms of progress.

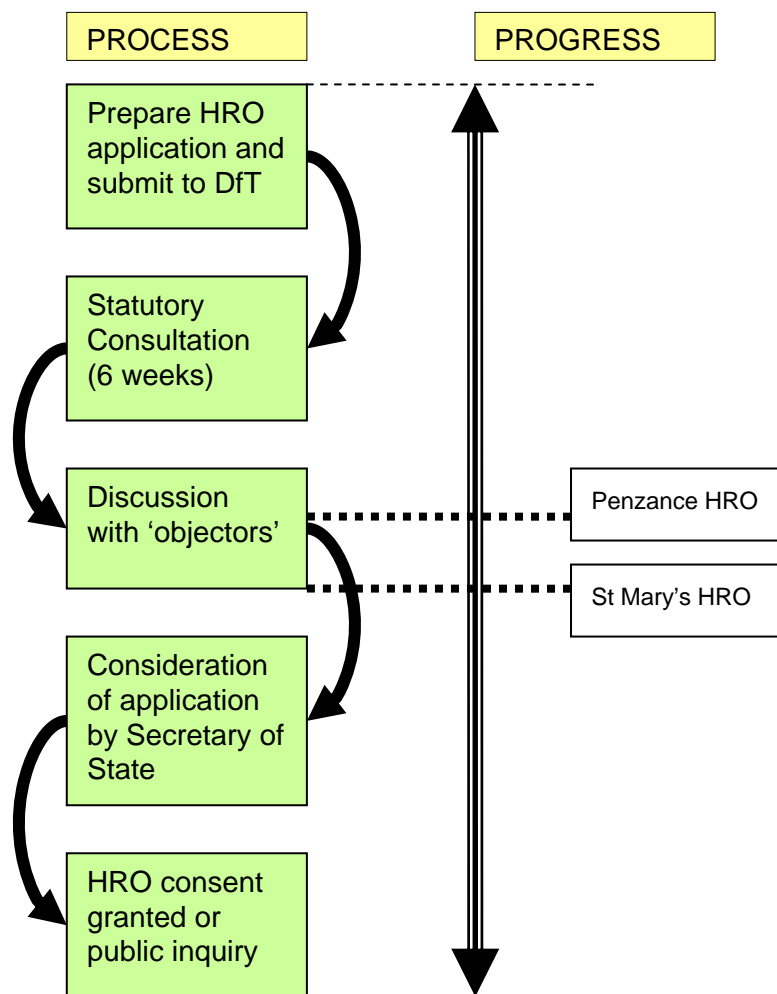


Figure 2.1 : Process and progress of HRO consent

Both HRO applications have been positively received and the level of objection has been low. The Route Partnership are working with the key statutory bodies to discuss concerns that have been raised and work towards an amicable solution. There is currently 1 'precautionary' objection with respect to St Mary's HRO and 4 outstanding objections with respect to Penzance HRO. There have been letters of support submitted by the

Chamber of Shipping with respect to both HRO's and from Penzance Town Council with respect to the Penzance HRO. The Local Authorities are working with the respondents to address the issues raised, none of which seem insurmountable. It is considered unlikely that a public inquiry will be required and there is an expectation that consent will be achieved in the Spring of 2006.

2.2.2 Technical development progress

Conceptual designs have been developed for both harbours and these are provided in appendix B. Further refinement in terms of accommodating Harbour Revision Order responses, and estimation of construction costs have been undertaken since the original bid submission which has led to the latest estimates of £10.9M for St Mary's harbour and £11.2M for Penzance harbour.

2.3 Disaggregation

Disaggregation of the project elements has been considered with a view to phased funding, in terms of :

- vessel only
- Penzance harbour only
- St Mary's harbour only
- Vessel plus Penzance harbour
- Vessel plus St Mary's harbour
- Both harbours and no vessel
- The full scheme

It has been determined the full scheme is the most practical way forward in delivering this project and any attempt to phase the work, with delays between the various phases, will lead to increased operational difficulties and a potential worsening of the present health and safety concerns surrounding the service. For further details refer to the full report in appendix G.

2.4 Procurement

As required by European Directives, a PIN notice under the restricted procedure route has been published in the Official Journal of the European Union (OJEU) for both the vessel and harbour works to advertise the forthcoming:

- Marine Consultancy 'Professional Services' contract in 3 phases of which phase (I) is included with current stage 2 project development but progression to phases (II) and (III) are subject to funding:
 - I. Development of a general arrangement and specification for the vessel
 - II. Tender of the final design with shipyards
 - III. supervision of the vessel construction

- Civil/Marine ‘Design and Build’ construction contract in 3 phases, all subject to funding:
 - I. Further site investigations
 - II. Detailed design including application for all required consents
 - III. Construction

The tender documents for both contracts are under development and will be issued shortly. Within both contracts there will be stage reviews in which progress and funding is agreed to enable progression to the next stage.

A select list of 5 marine consultants has been agreed using a rigorous technical and financial assessment process. A similar assessment is now underway in terms of the Civil/Marine contractors. Early appointment of a Civil/Marine contractor is required to allow the site investigations to be undertaken in the spring/summer season. For details of the programme refer to section 2.5.

2.5 Project Programme

A project programme has been developed which is deliverable subject to funding. There are 3 main drivers of timescale within the programme namely:

- Construction within the Objective one funding timescale (commencement before the end of 2006 and completion by the autumn 2008);
- Completion of the construction and delivery of the new combined vessel before the present freight vessel reaches the end of its economic life (autumn 2009);
- Contract award within 12 months of the OJEC PIN notice (by October 2006)

An outline programme is indicated in figure 2.2 below:

Activity	Sep05- Dec06	Jan 06- Apr 06	Apr06- May06	May06- Nov06	Nov06- Sept08
HRO					
DfT Bid appraisal					
Tender period Harbours and Vessel					
Tender assessment and appointment					
Design and Build Harbours					
Design and Tender Vessel					
Vessel Build					

Figure 2.2 Outline Programme

The key activities are shown as

- HRO
 - Timescale shown as September 2005 to December 2006 but latest anticipated completion of HRO process May 2006
 - HRO will provide outline consent for harbour works – detailed planning approval will still be required
- DfT Bid Appraisal
 - Appraisal of the Bid Addendum 1 by DfT
 - Deadline for funding announcement April 06 to enable appointment of Civil/Marine contractor in May 06
- Tender Period Harbours and Vessel
 - 8 week tender period for the harbour works
 - award to be an a quality: cost assessment
- Design and Build Harbours
 - Award of contract required May 06 to enable testing to be carried out in appropriate conditions. If an award is delayed until the autumn then the testing will need to be deferred until the spring of 07
 - 21 month build period foreseen based on a start on site of autumn 06
- Design and Tender Vessel
 - Vessel design to be progressed in advance of harbours to enable operational constraints to be defined
- Vessel Build
 - Vessel build progressing in parallel with harbour build. Vessel to be ready for delivery as soon as construction of harbours complete

A more detailed programme is contained in appendix H.

If funding commitments are delayed beyond April 2006, it will not be possible to complete all of the project within the present Objective one timeframe and support from the subsequent Convergence programme will be required. There is a 12 month period of flexibility within the programme up to delivery of the new vessel before the present vessels reach the end of their economic life. OJEU rules dictate that a contract must be awarded for the harbour works by October 2007. The alternative is that advertising and selection procedures would have to be repeated (4 month process). There would be a high risk that the project could not be completed before the freight vessel reaches the end of its economic life.

3 Project Governance

3.1 Partnership

The partners are currently developing agreements that will determine the way in which the vessel and harbour works are provided, maintained and operated including working relationships between the parties and the roles and responsibilities of each of the parties. A governance structure will be formally adopted before the procurement contracts for the capital works are awarded.

A Partnership Charter that has been developed for the present stage of this project is contained in Appendix I.

3.2 Analysis of State Aid Issues

Cornwall County Council (CCC) have commissioned work to assess European State Aid rules and their application to the various models for delivery under consideration by the Route Partnership. A précis of the legal advice received is provided in appendix F.

Some of the key aspects of the advice received are highlighted below:

- Harbours
 - No State Aid implications regarding proposed harbour improvements, as proposed Grant of this kind would not be caught by state aids provisions
- Vessel
 - Regarding vessel procurement, Government grant to a Local Authority would be, in effect, a grant from one part of the State to another, and the rules relating to state aids would not apply.
 - It is with the making of a grant or loan to a company in the private sector that the question of State Aids becomes troublesome.

The relevant parts of 'Article 87' read:

1. *Save as otherwise provided in this Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market.*
3. *The following may be considered to be compatible with the common market:*

(a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment;

(c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;

Unfortunately, Cornwall and the Isles of Scilly's "Objective One" designation does not invoke either of the exemptions stated above.

The Commission has issued Guidelines on national regional aid. A grant or loan of the kind envisaged here would come under the heading of "aid for initial investment" and the Guidelines are very clear; "In the transport sector, expenditure on the purchase of transport equipment is not eligible".

With respect to the State Aid Rules; where a grant to a private sector company would "distort or threaten to distort competition by favouring certain undertakings" it could be said that it, in this case, it would not distort competition as it has always been open to anyone to run a passenger ferry between any of the Scilly Isles and the mainland if they wished, but they do not.

There is an argument that the funding might distort competition by placing the ferry company in a better position than rival forms of transport (particularly if vessel's ability to voyage in winter extends the sea service into a period where previously there were only air services). There is undoubted competition between Steamship and BIH. Counsel's view is that the issue of distorting competition is very evenly balanced, and could not hazard an opinion as to which way and English Court might decide.

Probably the most crucial point relates to the final requirement of 'Article 87', State Aid insofar as "it affects trade between Member States". It cannot be said that granting aid to a purely internal ferry service could affect trade between Member States. Although the Commission does concern itself with ferries, historically it has only dealt with international ferries and CCC are unable to find evidence of any intervention in a case involving an internal ferry.

The probable conclusion is that a grant or loan by the DfT or the Council to a private sector company towards the purchase of a new vessel would not offend against Article 87.

Another point to consider is that all Harbour Authorities are legally obliged to operate on a completely commercial basis and are not allowed to discriminate between operators. The vessel therefore has to be operated on a competitive basis, and no specific rights can be allocated to any specific operator. The route will remain open to all competitors who wish to service the route

Any of the options identified would have to be referred to the Euro Commission on State Aid. However it is considered that the Commission will find the basic principles of the proposed model acceptable.

The state aid implications for each of the individual options identified can be viewed in more detail in Appendix F.

3.3 Delivery Model

To provide a record of the options that have been considered and how the proposed delivery model was chosen this section is divided in terms of

- The Scope of the delivery model
- The factors or issues to be considered
- The options for a delivery model
- Legal Framework – Procurement legislation
- Conclusions and identification of the proposed model

3.3.1 The Scope of the delivery model

The delivery model must address both the harbours and the vessel:

- Harbours
 - There are no queries, issues or existing problems regarding the existing or continued Public Sector involvement in harbour investment and management. It has been agreed and accepted that these will continue.
- Vessel
 - In contrast to the harbour management, the questions of public investment, accountability and how the vessel service should be operated and maintained in the future requires more detailed consideration.

The scope of the delivery model therefore is directed at the ownership and management of a new sea vessel.

It has been agreed by the Route Partnership that the model adopted needs to address the following issues:

- How will the service be made self-sustaining?
- How can reserve for future vessel replacements be secured?
- What checks/ balances/protection will exist against future, short term, cut throat competition eating into reserve funds?
- Who will receive rewards/ carry financial risks?
- Who owns new vessel?
- How can the residual value of the existing vessels, (freight and passenger) be utilised towards the overall cost of the new vessel?

- How will outputs be secured? Service Level Agreements? Contract agreements?
- The state aid implications?

3.3.2 The factors or issues to be considered

There are three areas of input to consider:

- Key stakeholders views, aspirations and limitations
- What is legally possible – Legal advice and guidance (Section 3.3.4)
- State Aid (Section 3.2)

Adopting a workable model for delivery requires collective agreement. It is a complicated question which has to consider different stakeholder views, and satisfy specific questions if public sector investment is to be considered.

The questions identified in 3.3.1 have been considered by the Route Partnership. Key factors which determine the means by which the service should be procured, managed and operated have been discussed and agreed. These are summarised below.

- In the event that short term competition does occur and become too fierce, or the IOSSCo decide to cease trading, funders and public sector Clients will require reassurance that the capital investment in the service will be protected and maintained.
- The current operator, Isles of Scilly Steamship Co. (SCo), is unable fund the new vessel at the intervention rates available to private sector applicants. It is felt that Local Authority intervention will be necessary to access higher intervention rates.
- SCo want to ensure that they have equity in the vessel, which they can provide from the residual value of the existing vessels and through a commercial loan. Local Authorities also want to see this private sector input into the proposal.
- Local Authorities do not want to own or operate the ferry service, despite having the legal powers to do so, if necessary. This is treated as a last resort solution.
- Both LA's and IOSSCo wish to avoid short term tendering arrangements. This will encourage cut-throat competition, would undermine long term investment decisions and could compromise safety standards.
- Harbour authorities cannot discriminate between operators or provide exclusive rights for the Isles of Scilly sea passenger service. There are no concessions that can be provided and the service has to operate commercially.

3.3.3 The options for a delivery model

Following consultation with the Route Partnership, a review of the assumptions, views, aspirations and capabilities of the stakeholders, together with comparison with other services, a number of possible models were identified.

The following options have been considered in relation to practical value, procurement legislation and State Aid.

Please note-

The option of using a 'Joint Venture Company' was eliminated early in the process since it did not effectively manage any of the financial risks, and would simply have created an unnecessary layer of administration. For this reason it does not feature in the options. More detailed advice on this alternative is available if required.

Adoption of the preferred option, Option 4, is subject to Local Authority Chief Officer and Member Committee agreements

The options identified for assessment are as follows, (Ref also Appendix F, paras 11 – 47,).

- Option 1 Private sector procures vessel with no support and operates and maintains service with no public sector intervention
- Option 2 Private sector company makes own bid for procurement of vessel and operates and maintains service on a commercial basis.
- No Local Authority involvement.
- Option 3 Design Build Operate Maintain (DBOM) package. Council tenders for grant.
- Competition based on least capital grant required to provide service.
 - operator designs and builds vessel, and agrees terms for operation and maintenance of service for a given period.
- Option 4 Local Authority procures vessel on a competitive basis.
- Local Authority then charters vessel with a service level agreement to operate and maintain the service. The Operator makes an 'up-front' payment, retains all fares, crews and operates Newship and makes payments to the Local Authority. The lease charges would provide the reserve funding for a new vessel.
- Council retains ownership of Newship until its outlay has been reimbursed and a significant reserve created.
- Option 5 Local Authority procures vessel on a competitive basis.
- Local Authority enters into an operating agreement. The Operator makes an 'up-front' payment, retains all fares,

crews and operates Newship and makes payments to the Local Authority

Although it would be possible for the amount payable by the operator to include a substantial payment "up front" for the right to operate the services, in order to bring the value of Steamship's two vessels into the equation, it is hard to see what would be the attraction for Steamship, given that Steamship would never acquire ownership of the vessel.

3.3.4 Legal Framework – Procurement legislation

Legal Counsel advice was sought to assess available options, procurement legislation, European State Aid rules and how these might affect delivery of a sea passenger service. Legal Counsel advice was received through a number of Commissions. A précis of the legal advice received is attached (Appendix F)

Powers Available to Local Authority

Local Authority involvement in sea passenger or freight services can vary in nature. A Local Authority may wish to:

- own and operates New vessel;
- own New vessel and engage a private sector company to operate it (whether Steamship or another) or;
- own New vessel and charter it to an operator in the private sector.

A local authority has the power to acquire and run a ferry service:

Ferries (Acquisition by Local Authorities) Act 1919.

The Council is also empowered to take these actions by:

Section 2 of the Local Government Act 2000

where to do so would promote or improve the economic well-being of the area.

With regard to the need for such actions by the Local Authority, a range of options (identified in Section 3.3.3) were tested with the following objectives in mind:

- keeping public financial involvement to a minimum;
- ensuring the long-term future of the ferry service.

Procurement Implications

Counsel advice was sought (Ref Appendix F) with respect to the each of the procurement options identified in 3.3.3. A summary of the conclusions is provided:

- | | |
|-----------------|---|
| Options 1. & 2. | No Local Authority Involvement
There are no public procurement implications for the Local Authority. |
| Option 3 | Local Authority procures DBOM |

Counsel does not consider that public procurement processes would be required because any Design, Build, Operate, Maintain contract (DBOM) would amount to a "concession" contract. (Appendix F, Para 25)

Option 4 Local Authority procures vessel and charters it to an operator)
If the Local Authority commissions the construction of a new vessel, this would be governed by the Supply Regulations, vessels being Chapter 89 goods under Schedule 2 to those regulations. The Council would have to follow the prescribed public procurement processes for buying the vessel or having it constructed. (Ref Appendix F, Para 34).

With regard to chartering of the vessel, Counsel advised that he cannot see how it would attract the public procurement regulations. The procurement regulations are tied to public bodies *buying* things (building works, goods, services etc) not to their disposing of things by sale or lease or even lease-purchase (which is what a charter with an option to buy would amount to). (Ref Appendix D, Para 40). Counsel considers that the Local Authority could enter into a charter along the lines suggested above with Steamship without the need to conduct any kind of competitive tendering exercise. This would however need to be assessed in detail in relation to the Authority's own internal procurement processes.

Option 5 Local Authority procures vessel and procures an operating agreement with an operator
The vessel procurement would be the same as option 4.

An operating agreement would be covered by the Services Regulations but Counsel is of the opinion that it is likely to be exempt from their application as being a public services concession contract, excluded from the definition of "public services contract". Additionally, the services would be 'Part B', services, and thus even if caught by the Regulations, would not necessitate any element of competitive tendering.

3.3.5 Delivery Model Conclusions

Option No 4, in which the Local Authority procures a vessel on a competitive basis then charters the operation to a preferred operator has been identified by the Route Partnership as the preferred arrangement for model for delivery.

The model will effectively facilitate public/private partner working. The Local Authority involvement will provide a governance structure which will secure

long term arrangements to manage the future funding reserve, monitoring of service levels, and control of use of the capital asset.

If the service is commercially successful, option 4 can be structured to provide Local Authorities with the option of gradual financial withdrawal from the arrangement over time, leaving IOSSCo with full ownership of vessel.

The arrangement is shown below:

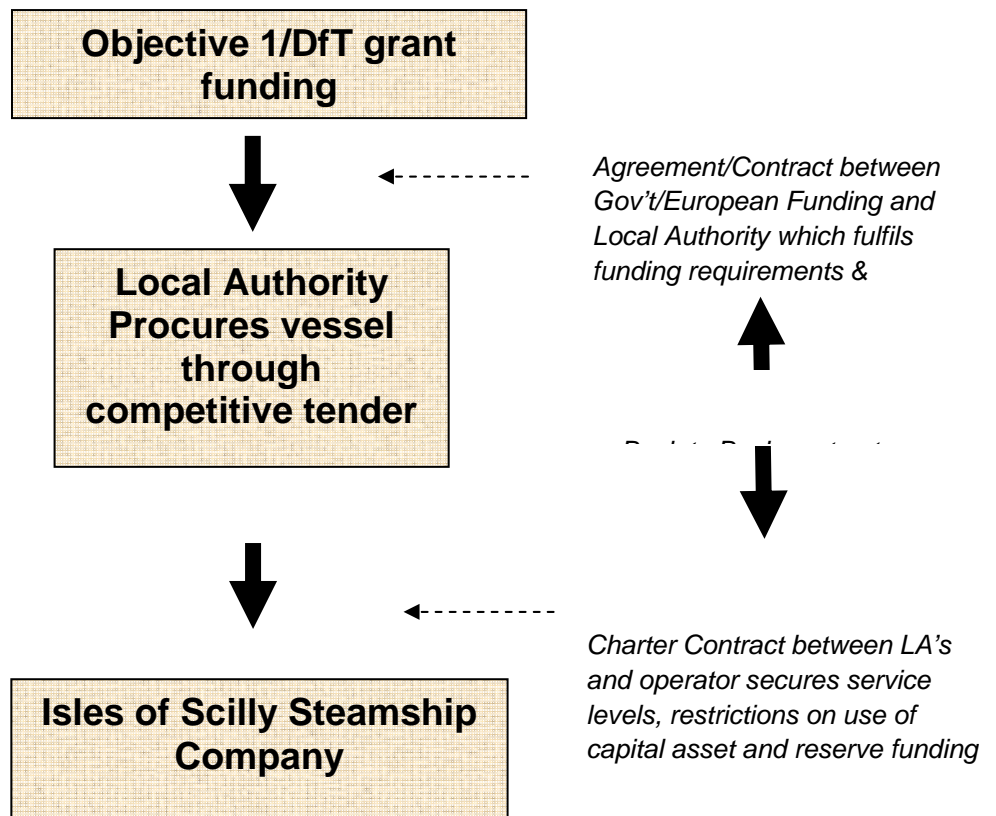


Figure 3.1 Delivery Model

Having established the basic model for delivery, the state aid issues, the legal implications and procurement processes, further work is now underway to establish the more detailed aspects of partner working between the Local Authority and a private operator. This includes further legal advice on the sharing of risks, levels of ownership and the ability of the operator to meet all of the necessary requirements.

4 Economic Analysis

4.1 'Original Bid' study work

The 2004 study considered all transport modes and a number of mainland alternative ports for a sea link to the Isles of Scilly. The work considered

- Air travel options
- Mainland link location options – Falmouth/Newlyn
- Sea vessel options
- Harbour Improvements

For further information refer to the original bid part 2 section 9.

The 'Do minimum' scenario identified and agreed with DfT comprised of

- freight services are operated by one or more commercial operators from 2009
- passenger ferry continue to operate until 2014 then cease operations.

The original bid established that some passengers would transfer to air modes but even with this additional patronage, the air operators would not be able to reduce operating costs sufficiently to bring down fares to the same level of affordability of the ferry service. In the 'do minimum scenario it was forecast that there would be a reduction in the numbers of passengers travelling to the islands, particularly day visitors and this would impact on the economy of the Isles and Penwith.

A number of 'do something' options were identified to sustain the service and to avoid the negative impacts of the 'do minimum' approach.

The preferred option was identified as:

- Low scale improvements at Penzance and St Mary's harbours, &;
- Combined passenger and freight vessel.

The next best option was identified as:

- Low scale improvements at Penzance and St Mary's harbours
- Separate passenger and freight vessels

Further discussion on various factors in the economic model from the original bid led to an agreed BCR of 1.8. However DfT subsequently expressed a view that the economic model was a 'crude tool' and requested further study work to be undertaken.

4.2 Further study work

At a meeting in January 2005, DfT and GOSW recommended that further work be commissioned employing stated preference surveys, and that these should underpin a review of the economic assessment. DfT agreed to oversee the development of the design brief, agree suitable survey specialists and assist/direct the selection of consultants.

Revealed and Stated Preference Surveys were subsequently undertaken during the summer operating season 2005 and the results of these interviews have been developed into a mode choice and travel demand model. This model uses state of the art methodology to identify consumer surplus benefits based on existing travellers' choice of mode and responses to hypothetical choice scenarios.

The results of the Mode Choice Study are available as a separate document. The mode choice model identifies the projected impacts and consumer benefits for a range of service options (Ref Section 2.3)

With respect to the original study, which identified the low cost harbour works as the preferred and next best solutions, the review of the economic analysis considers the following alternative:

Do Minimum

No passenger service after 2014
Freight continues with 2nd hand vessel after 2009
No Harbour improvements

Scheme 1

Separate vessels
New Passenger vessel from 2009 15 knots capacity
Freight continues after 2009 with 2nd hand vessel
Low scale harbour improvements

Scheme 2

Combined vessel - from 2009 15 knots capacity
Low scale harbour improvements

Scheme 3

Separate vessels
New Passenger vessel from 2009 20 knots capacity
Freight continues with 2nd hand vessel after 2009
Low scale harbour improvements

Scheme 4

Combined vessel - from 2009 20 knots capacity
Low scale harbour improvements

Using the Mode Choice model, the revised benefits were calculated in respect of the above options with respect to:

- existing levels of service
- existing fare levels
- revised harbour and vessel costs with applied optimism bias (66% harbour costs and 44% vessel costs)
- revised operating costs

(Existing levels of service are defined in the original bid table 9.2 schedule A)

A revised benefits costs assessment has been carried out for the basic service timetable against the stated schemes and the results are summarised in table 4.1 below, together with an illustration of the patronage by mode for scheme 4. The full report is provided in Appendix D .

Economic indicator	Scheme 1	Scheme 2	Scheme 3	Scheme 4
Net Present Value (£000's)	£22,509	£29,897	£30,056	£35,206
Benefit to Cost Ratio (BCR = PVB/PVC)	1.37	1.44	1.45	1.48

Table 4.1. : NPV/BCR of the 4 schemes for the basic service schedule

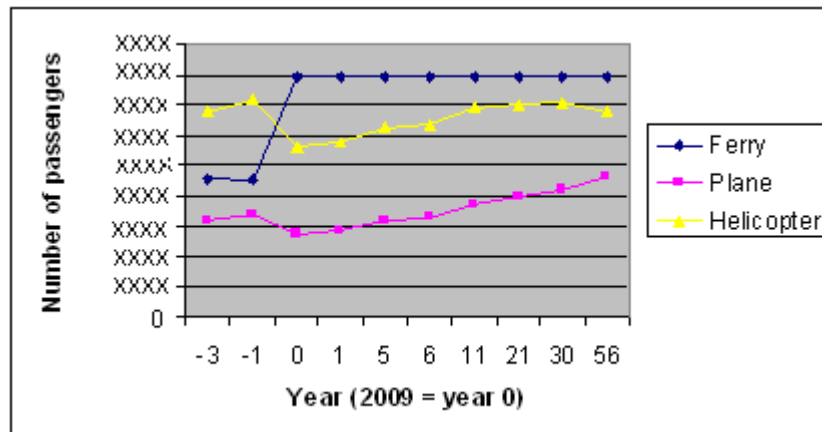


Figure 4.1 Patronage by mode for scheme 4 basic service schedule

The combined vessel operating at 20 knots (scheme 4) has the highest NPV at £35.2M and the highest BCR at 1.48 in this test. This appears upon first consideration to be lower than the BCR of 1.8 from the original bid but there are significant differences and refinements between the economic analysis of 2004 and the 2006 review in terms of operators revenue stream, optimism bias, air passenger duty and landing charges, indirect tax revenue and switching values. For further details refer to Appendix C (email from James Laird dated 6th January 2006).

4.3 Sensitivity Testing

A range of sensitivities were tested within the mode choice and economic assessment model.

Sensitivity test 1 - Passenger Seasonal constraints

Sensitivity Test 2 - Optimism Bias

Sensitivity test 3 - Reduction in the reliability of survey responses

Sensitivity test 4 -Fare Increases

Sensitivity test 5 - Enhanced operating capacity (Increased sailing schedules and vessel passenger capacity)

4.3.1 Sensitivity Test 1 - Passenger Seasonal Constraints

The basic service model predicted that the new vessel would reach its capacity immediately upon coming into service for all of the options and throughout the full operating season. Currently patronage of the vessel is seasonal with a peak demand in July and August, and low levels of demand in March and October. Therefore it was considered a 'reality check' to undertake further modelling applying a seasonal constraint accordingly.

Testing was undertaken to model a seasonal passenger demand profile with capacity constrained to 50% in March, April and October but allowed to increase to 100% over the remainder of the season. The results of this test are summarised in tables 4.5 below and the full report in appendix D.

Economic indicator	Scheme 1	Scheme 2	Scheme 3	Scheme 4
Net Present Value (£000's)	£17,120	£26,405	£22,144	£29,603
Benefit to Cost Ratio (BCR = PVB/PVC)	1.32	1.43	1.38	1.45

Table 4.2 NPV/BCR of the 4 schemes for the basic service schedule with a seasonal constraint

The combined vessel operating at 20 knots now has a BCR of 1.45 (reduction from 1.48 without the seasonal constraint) and the patronage has reduced by 19,200 per annum as a result of this constraint.

4.3.2 Sensitivity Test 2 - Optimism Bias

The capital costs for the harbour works in the original bid have since been refined with a resultant greater degree of certainty over cost. The estimates have been developed with unit costs based upon actual quoted prices for the supply of materials. Likewise, a substantial amount of work has been carried out as part of the outline design to provide a realistic capital construction cost for the harbours and the vessels and from an engineering point of view it is believed that these costs should be within 10% for the harbour works and 5% for the vessel.

Further testing has been carried out to consider the effect of lowering the optimism and the results are given in table 4.7 below.

Optimism Bias	Vessel Costs	44%	5%	0%
	Harbour Works	66%	10%	0%
	Operating Costs	0%	0%	0%
BCR	BCR for schemes 1-4	1.37-1.48	1.84-1.95 (+32%)	1.96-2.06 (+39%)

Table 4.3 : BCR of the 4 schemes for the basic service schedule and alternative optimism bias factors

Clearly the inflated construction costs used in the basic demand model generate conservative NPV and BCR values.

4.3.3 Sensitivity Test 3 – Reduction in the reliability of survey responses

The mode choice model indicates a high sensitivity to the provision of a new boat and harbour improvements, and that substantial numbers of people would switch from fixed-wing and helicopter services to the new ferry. The model predicts that a, new ferry (separate or combined vessels and 15 or 20 knots) will be used to full capacity immediately upon coming into service. The difference between the faster boats (which offer 30 mins travel time savings) and the slower boats is revealed after 2039 when the demand falls away for the 15 knot vessels but is maintained for the 20 knot vessels.

Where full reliability of the survey responses is assumed, the ferry patronage increases to maximum 158400 in 2009 and continues at this level until 2039 before falling off to 133,321 by 2065. The model predicts that significant numbers of passengers change from air to sea vessel mode.

To test the effect of the stated preference survey responses the analysis was repeated with

- 50% of the new boat and harbour improvement effects (the lower bound of the parameters, considering the 95% confidence interval)

The results in terms of patronage per mode for the 50% test are given in table 4.4.

	Scheme 1	Scheme 2	Scheme 3	Scheme 4
<u>50% SPS effects</u>				
Net Present Value (£000's)	-£9,248	-£1,860	£6,604	£11,755
Benefit to Cost Ratio (BCR = PVB/PVC)	0.84	0.97	1.10	1.16

Table 4.4 NPV/BCR of the 4 schemes for sensitivity test 3

As a result of the amendment to 50% SPS effects, the ferry does not reach capacity over the full time period without a reduction in the sailing time. There is also less impact in terms of a loss of patronage from the air modes.

4.3.4 Sensitivity Test 4 – Fare Increases

The values of time have been determined as part of the stated preference survey analysis as shown in table 4.5. Access time ranges from £3.50 (non business long stay visitor) to £13.98 (business day trip visitor) and the ferry time ranges from £9.27 (business long stay visitor) to £23.49 (business day trip visitor). A full report on the value of time is contained in Appendix E.

	Business	Non-business
Day trip visitors (£/hour)		
➤ ferry time	£23.49	£12.97
➤ access time	£13.98	£7.72
Long stay visitors (£/hour)		
➤ ferry time	£9.27	£10.59
➤ access time	£3.06	£3.50
Residents (£/hour)		
➤ ferry time	£11.47	£10.93
➤ access time	N/A	N/A

Table 4.5 Value of time (£/hour 2005 values)

The values suggest that an increase in current levels of fares should be possible and could result in an increased BCR. Therefore further testing was undertaken with regard to the fare increases between 10 and 40% across all ferry passengers and then the same fare increases but only to the day visitor passengers. The results of these tests are contained in table 4.6 and illustrated in figure 4.2.

Basic service schedule fares:	All passengers BCR (schemes 1-4)	Day trip passengers only BCR (schemes 1-4)
Existing fare charges	1.37-1.48	1.55-1.78
10% increase	1.32-1.45	1.56-1.79
20% increase	1.25-1.41	1.57-1.80
30% increase	1.15-1.41	1.57-1.81
40% increase	1.04-1.39	1.57-1.81

Table 4.6 BCR range of outputs for fare increases

Revenue calculations across all modes of travel have been based upon present fare charges. The sensitivity to fare increases for sea passengers has been tested in terms of increases of between 10-40% but in all cases the outcome is a worsening of the BCR.

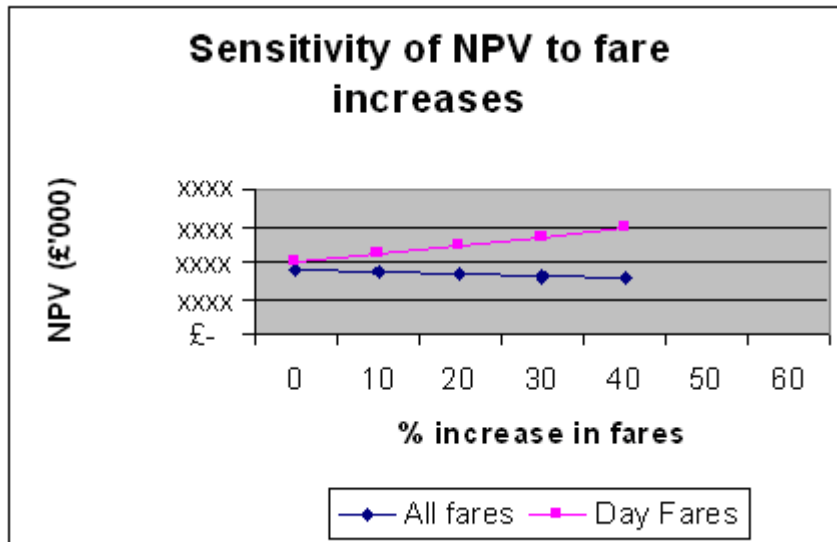


Figure 4.2 Sensitivity of NPV to fare increases

The test has shows that an increase in fare charges across all ferry passengers results in a decrease in the BCR.

If the fares were reduced there would not be any improvement to the BCR since the vessel would already be operating at full capacity. Therefore the only effect would be a reduction in revenue to the operator.

However if only the day visitor fares are increased, an increase in the BCR values could be achieved.

4.3.5 Sensitivity Test 5 – Enhanced operating capacity

The mode choice model predicts that the demand for a new vessel will exceed the capacity of the proposed vessel (at 400 pax capacity).

However, capacity can be increased by offering additional sailings. There would be a sufficient depth of water depth to berth the vessel twice in one day (assuming a turnaround in port of 1 hour) on all but 16 days (17%) in June, July and August.

Capacity also increases if, for identified vessel options, the effective passenger capacity is used in place of the theoretical capacity. The study work carried out for the combined vessel determined that there will be an effective (as opposed to theoretical) capacity of 450 passengers.

As part of the 'Reality Check', whilst maintaining the seasonal constraints on capacity, a number of alternative scenarios have been tested in the economic model as indicated in table 4.7.

Option No.	Vessel(s) and speed	Service scenario enhancements to basic schedule			
		1	2	3	4
1	Separate vessels 15 knots	+2 sailings per week in August 400 pax	+2 sailings per week in August 400 pax	+3 sailings per week in August (includes Sunday) 400 pax	+3 sailings per week in August (includes Sunday) 400 pax
2	Combined vessel 15 knots	+2 sailings per week in August 400 pax	+2 sailings per week in August 450 pax	+3 sailings per week in August (includes Sunday) 450 pax	+3 sailings per week in August (includes Sunday) 400 pax
3	Separate vessels 20 knots	+2 sailings per week in June, July & August 400 pax	+2 sailings per week in June, July & August 400 pax	+3 sailings per week in June, July & August (includes Sunday) 400 pax	+2 sailings per week in June, July & August (includes Sunday) 400 pax
4	Combined vessel 20 knots	+2 sailings per week in June, July & August 400 pax	+2 sailings per week in June, July & August 450 pax	+2 sailings per week in June, July & August 450 pax	+2 sailings per week in June, July & August 400 pax

Table 4.7 Service scenarios to be tested

Scenario 1 - Double sailings

Service Scenario 1 is the basic service option, constrained by the seasonal passenger demand in the shoulder season but with 2 additional sailings per week in June and July for the 20 knot vessel options. The results of this test in terms of NPV's and BCR's are given in table 4.8.

	Scheme 1	Scheme 2	Scheme 3	Scheme 4
Net Present Value (£000's)	£17,120	£26,405	£27,707	£35,033
Benefit to Cost Ratio (BCR = PVB/PVC)	1.32	1.43	1.47	1.53

Table 4.8 : NPV/BCR of the 4 schemes for Scenario 1

Scenario 2 - Increased passenger accommodation (pax)

Passenger carrying capacity could also be increased by expanding the passenger accommodation. Further vessel development work has been undertaken for the combined vessel from which it has been determined that 450 passengers could be carried within the adopted vessel parameters and the only additional expense is that of operating costs

Scenario 2 is the basic service option, constrained by the seasonal passenger demand in the shoulder season but with the addition of 2 additional sailings per week in June and July, together with an increase in the passenger accommodation from 400 to 450. This scenario is applied to the 20 knot vessel options. The results of this test in terms of NPV and BCR are given in table 4.9.

	Scheme 1	Scheme 2	Scheme 3	Scheme 4
Net Present Value (£000's)	£23,814	£33,132	£36,397	£43,780
Benefit to Cost Ratio (BCR = PVB/PVC)	1.44	1.54	1.61	1.66

Table 4.9 NPV/BCR of the 4 schemes Scenario 2

Scenario 3 - Double/Sunday Sailings and increased passenger accommodation

There is also the potential to increase the available passenger capacity by running a sailing on a Sunday. This area has been investigated as part of the stated preference survey from which it has been revealed that there is some interest in a Sunday crossing although there is not likely to be any increased demand. For the full report on Sunday sailings refer to appendix E.

The model is predicting that the vessel will be running at full capacity in June July and August in which case a Sunday sailing at these times of the year would pick up additional passengers by allowing some of the demand to displace to a Sunday.

Scenario 3 is the basic service option, constrained by the seasonal passenger demand in the shoulder season but with the addition of 2 additional sailings per week in June and July (20 knot options), Sunday sailings in July, July and August (all options) and an increase in the passenger accommodation from 400 to 450 (combined vessel options). The results of this test in terms of NPV and BCR are given in table 4.10.

	Scheme 1	Scheme 2	Scheme 3	Scheme 4
	£23,638	£32,870	£36,676	£43,994
Benefit to Cost Ratio (BCR = PVB/PVC)	1.44	1.54	1.62	1.67

Table 4.10 NPV/BCR of the 4 schemes for Scenario 3

Scenario 4 - Double and Sunday Sailings (without an increased PAX)

There is also the potential to increase the available passenger capacity by running a sailing on a Sunday and a 2nd sailing twice a week in June, July and August but without any increase in pax from 400.

This area has been investigated as part of the stated preference survey from which it has been revealed that there is some interest in a Sunday crossing although there is not likely to be any increased demand. However as the model is predicting that the vessel will be running at full capacity in June July and August then a Sunday sailing at these times of the year would pick up additional passengers. The results of this test in terms of NPV and BCR are given in table 4.11.

	Scheme 1	Scheme 2	Scheme 3	Scheme 4
Net Present Value (£000's)	£16,902	£26,131	£27,914	£35,187
Benefit to Cost Ratio (BCR = PVB/PVC)	1.31	1.43	1.47	1.53

Table 4.11 NPV/BCR of the 4 schemes for Scenario 4

The BCR results of all the tests are summarised in table 4.20 below:

	Option 1	Option 2	Option 3	Option 4
Basic	1.37	1.44	1.45	1.48
Seasonal constraint	1.32	1.43	1.38	1.45
Scenario 1	1.32	1.43	1.47	1.53
Scenario 2	1.44	1.54	1.61	1.66
Scenario 3	1.44	1.54	1.62	1.67
Scenario 4	1.31	1.43	1.47	1.53

Table 4.12 Summary of BCR outputs for sensitivity tests

Whilst the model has demonstrated that there is sufficient demand for a double sailing on a peak day it has not been able to give any guidance as to the attractiveness of a 2nd sailing at the middle of the day and the concern is that the majority of the passengers would wish to travel on the first sailing and that the 2nd crossing would be under-utilised unless the long stay passenger market can be tempted to this timeslot through appropriate marketing and fare structures. The basic BCR is considered to be within these two values 1.45 – 1.67.

4.4 Summary of further study outputs and discussion

An indicative summary of the BCR values for each of the sensitivity tests is shown in Table 4.13.

	Scheme 4 - BCR
Basic service model	1.48
<u>Sensitivity test 1</u> <i>Passenger Seasonal constraints</i>	1.45
<u>Sensitivity Test 2</u> <i>Optimism Bias (Basic service model)</i>	1.95
<u>Sensitivity test 3</u> <i>Reduction in the reliability of survey responses</i>	1.16
<u>Sensitivity test 4</u> <i>Fare Increase 40% on all travellers</i> <i>Fare increase 40% on day trip travellers only</i>	1.39 1.81
<u>Sensitivity test 5</u> <i>Enhanced operating capacity (Scenario 3)</i>	1.67

Table 4.13 Summary of BCR outputs for scenario tests

It must be noted that the assessment has been undertaken on the assumption that 100% funding is provided by the public sector. However 17% of the funding is to be sourced from private funds and thus the public contribution is only 83%. The BCR with respect to purely public sector funds would likely increase if this were taken into account.

It has already been demonstrated that the application of more moderate optimism bias will increase the BCR and if this was considered in conjunction with a reduced value of costs (based on the proportion of public funding provided) then an overall BCR in the order 2.5 - 2.8 could result. However this assessment will only be carried if agreed with DfT, and if it gives some guidance on an appropriate level of funding support.

4.5 Implications for Wider Socio-Economic Impact Analysis

The original bid included an assessment of the wider Socio- Economic assessment,)and identified a wide range of linkages between the freight and passenger ferry services, and the impacts on employment and GVA. (refer to Original bid Section 11).A number of impacts were dependant on the patronage projections which have now been reviewed.

Although the baseline projections vary significantly between the two assessments (2004 & 2006), and a detailed comparison of the impact on different segments has yet to be carried out, the order-of-scale of both assessments of net loss of visitors to the Isles of Scilly in the 'do minimum' are similar.

The net loss of visitors projected by the mode choice model, from 2015 is approximately 25,000 per annum.

The projected annual net loss identified by the original bid from 2015 onwards was 31,000

Not all of the socio economic impacts are directly proportional to the number of visitors.

Whilst further work will be required to make a more detailed assessment of the impact on employment and spend, it is possible to make a conservative 'order-of-scale' assessment of the employment impacts based on the original assessment.

Comparing the original bid with the 2006 review, and making a proportional allowances for changes in net loss of visitors, the impact on employment would be as indicated in table 4.14 below:

Type of Impact	2010	2020	2030	2039
Tourism on Scilly	13	32	42	43
Tourism in Penwith	3	14	18	18
Freight impacts	0-25	0-60	0-60	0-60
Transport employment	10	10	11	11
Cruise ships/yachts	2	2	2	2
Harbour businesses, Penzance	0-8	0-20	0-20	0-20
Harbour businesses, Scilly	0-5	0-5	0-5	0-5
Fishing, Scilly	5-10	5-10	5-10	5-10
Total	33-76	63-153	63-153	63-153

Table 4.14 Net effect of "Do Something" Options on Employment (FTE) Jobs new and safeguarded. (Proportional assessment based on Original bid 2004)

As part of the business plan for European Funding support, further work will be carried out in the future to refine this assessment.

5 Funding

5.1 Gap Analysis

The ferry service was established by the islanders to secure an affordable but reliable link for transport of goods and persons between the mainland and St Marys and as such there was a pressure to operate at a low profit margin.

GOSW have recently appointed consultants to undertake a commercial gap analysis to determine the capacity of the Isles of Scilly Steamship Group to contribute towards the capital cost of a new vessel. The company themselves have pledged the residual value of the vessels (forecast to be £3M in 2009) and have offered to take out a loan to the value of £2.5M on the basis that this can be secured against part ownership of the vessel. The gap analysis for GOSW will help to determine the extent of public funding support necessary for the service to operate within an acceptable fare structure but at the same time generate sufficient reserve funds for the subsequent vessel replacement (a further 30 years hence).

5.2 Funding Sources

The proposed split of funding between the partners and the funding bodies is illustrated in figure 4.11. The Route Partnership are making a combined contribution of £6.1M (16%) and are looking towards European sources (Objective One or Convergence funding) and the Department of Transport to inject the remaining 84% required to deliver the project.

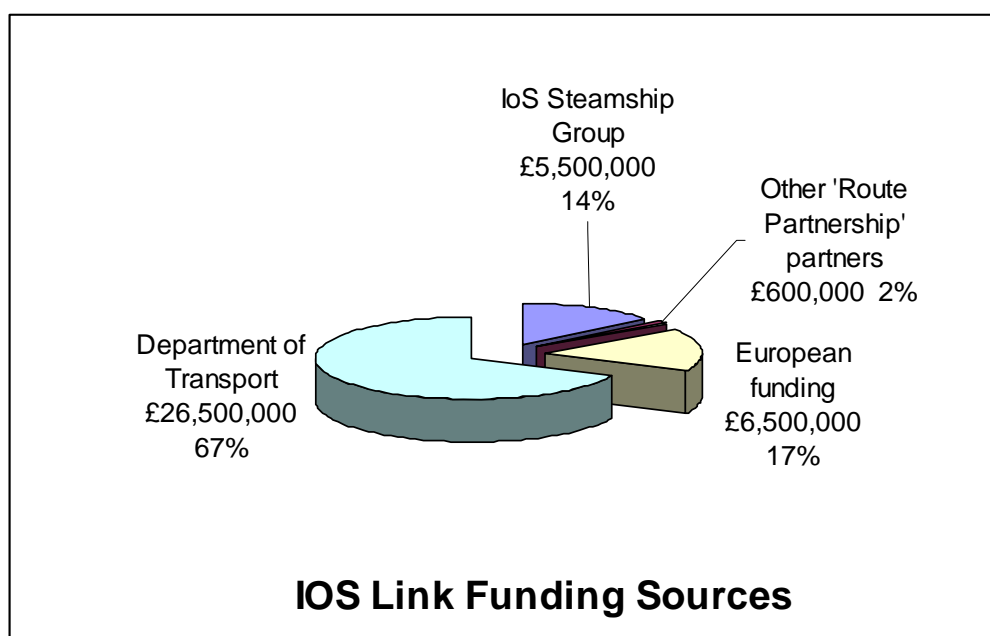


Figure 5.1 : Proposed Funding Sources

6. Conclusions and Recommendations

This project is seeking £26.5m of Central Government funding together with £6.5M of European funding to develop and maintain the sea link from Penzance to the Isles of Scilly. This funding will secure harbour infrastructure facilities required at both ends of the route and a new combined passenger & freight vessel to operate the route.

The communities of Isles of Scilly, Penwith and Cornwall will suffer a negative economic and social impact if this project is not delivered by the end of 2009.

Commitment to this project is required by spring-2006 to deliver within the constraints of Objective One funding, before the vessel reach the end of their economic life and within OJEC time limits.

In terms of addressing the issues that were raised by the DfT with respect to the 'Original Bid' the main outputs are summarised as follows:

- **State Aid**

State Aid will be an issue for which notification will be given. However, analysis of the issues reveals that it is not likely to have any adverse effect on the proposals

- **Model for Delivery**

The Route Partnership have identified a 'Model for Delivery' in which the local authority procures the vessel on a competitive basis then charters to a preferred operator. The means of procurement for this arrangement have been examined in detail and will not contravene statutory procurement rules and regulations. The further development of agreements between the local authorities and the Isles of Scilly Steamship Group is under investigation by legal counsel.

- **Timescales and Deliverability**

The basic vessel parameters have been tested and confirmed as deliverable in terms of time and cost. Harbour revision order applications are under consideration by the Secretary of State and it is anticipated that consent will be granted in the spring of 2006. The ability to deliver the project within the Objective One funding constraints has been confirmed, subject to a funding announcement in the spring of 2006.

- **Benefit Cost Ratios**

The original bid determined a BCR of 1.51 although further discussion indicated a value of 1.8. Further study has generated a revised BCR of 1.45-1.67. However further tests on the sensitivity of this value will need to be discussed with DfT.

- **Sunday Sailings**

Preference surveys indicate that Sunday sailings would be considered desirable by visitors and residents, but are unlikely to specifically generate any more trips. However as the demand for the vessel is predicted to exceed the capacity then Sunday sailing can be used to increase the available capacity.

- **Local Values of Time**

The value of time has been determined for day visitor, long stay visitor and residents in terms of business and non-business trips. The access time ranges from £3.50 (non business long stay visitor) to £13.98 per hour (business day trip visitor) and the ferry time ranges from £9.27 (business long stay visitor) to £23.49 per hour (business day trip visitor).

It is recommended that the DfT consider the project and reach a decision with respect to funding support by the end of April 2006 in order for the project to progress to the next stages of delivery.