



FRIENDS OF ISLES OF SCILLY TRANSPORT

The Levelling Up Fund:

An alternative option by FRIST to modernise the Isles of Scilly ferry services, giving better and cheaper services, more competition and much reduced taxpayer funding!

21 June 2021

Introduction

This paper proposes an alternative option for the Isles of Scilly Sea link to that submitted by the Council of the Isles of Scilly (COIS) to the Government's Levelling Up Fund¹ on 17 June 2021. It summarises the information sent to the COIS in early May.

Based on experience in Scotland, where virtually every ferry is now RoRo, islanders could benefit from a 50% reduction in freight charges and a much-improved service. With one combined passenger and freight RoRo vessel, islanders could also have a good year-round ferry service, one that they enjoyed when the Scillonian III entered service. All that is needed at Penzance and St Mary's are appropriate ramps for the RoRo vessel to dock, which both harbourmasters say are quite possible. It also saves the cost of a second ship as proposed by the COIS.

The adoption of a modern RoRo system as is also proposed for Fair Isle for Levelling Up funds is no doubt because it will reduce freight costs and improve services, and better reflects the meaning of 'Levelling up', rather than sticking with the status quo which blights islanders' lives and their economy with a uniquely limited and expensive freight and ferry service. Ministers will surely question why they should give any 'Levelling Up' money to Scilly when it refuses to follow the lead of Scotland and the rest of the UK.

The Council of the Isles of Scilly (COIS) has submitted an application for just under £50m from the government's Levelling Up Fund to replace the ageing Scillonian III and two other ships which are said to be essential for the economy of the islands.

This would be a free gift of taxpayers' money for three ships worth £44m to the existing operator, the Isles of Scilly Steamship Company (COIS), to provide these services for perhaps 30 years, without any competition or assessment of value for money for the taxpayer, for islanders or of alternatives.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966138/Levelling_Up_prospectus.pdf

The Council has refused, apparently for reasons of lack of time, to put the operation out to tender, and refused to consider a change to the specification of the vessels to turn the service into a Roll on Roll Off (RoRo) as proposed by Bill Davidson² and FRIST³, from the present system that involves lifting up to 400 pallets a day several times each between the mainland and the islands. This takes time and therefore needs a second ship, and of course costs money – hence the prices of anything in the shops or other materials can be double or treble those on the mainland.

The FRIST proposal is modelled on the RoRo ferry system that has been used on nearly all Scottish Islands for decades. The last old-fashioned load-on load-off (LoLo) service in Scotland is the subject of a Levelling Up bid to convert it to RoRo, an interesting comparison with the COIS scheme to retain this expensive and unreliable LoLo scheme with the same – for another 30 years.

The COIS also refuses to require the IOSSG to operate the passenger ship in the winter, perhaps two or three times a week. This would give passengers the opportunity for a more cost effective and reliable journey than by air (which is often delayed by fog) and also give the Scilly community the knowledge of when freight would arrive – on the passenger ship. Instead, passenger would be offered a seat on a new freight ship, travelling in the uncomfortable bows of the vessel for 4 hours, acceptable according to the IOSSG because this represents a 20% reduction in journey time compared to the present freight vessel.

The COIS bid does little to improve the lot of passengers at Penzance who have to queue sometimes in the rain to collect their luggage from containers and maybe suffer getting soaked by waves breaking over the sea wall as they walk to the ship.

Freight customers, in practice everyone on the islands, are fed up with delays, breakages which occur when lifting pallets, and the refusal of several suppliers to deliver to the IOSSG in Penzance because of refusals by the company to honour bookings or of traffic jams on the main road. RoRo would avoid all this, by using the Scottish model of the operator of the vessel accepting all vehicles at a charge of so much per vehicle length, with independent logistics providers receiving goods at their own depot, taking it onto and off the ship and delivering – all in wheeled vehicle with the driver or on trailers. Competition in price and service is how the logistics sector survives and prospers, in Scotland, on the mainland and would with RoRo on Scilly services.

Adopting a RoRo scheme compared to the COIS bid would save taxpayers £19m in capital cost and avoid the need for a freight terminal which RoRo does not need, massively improve the services and reduce costs and charges.

Tony Berkeley and FRIST believe that new vessels and services are essential for the economic life of the islands and visitors. Sadly, the COIS bid just continues with the same: nice new expensive ships, but no benefits for the freight and few for the passenger customers, and £14m of wasted taxpayer money!

² Bill Davidson was a management consultant and corporate financier. With KPMG he created and financed the new-start ferry company, NorthLink Ferries. He was appointed as its first CEO and served for 10 years to 2012. NorthLink continues to operate the lifeline ferry services to the Orkney & Shetland Islands and is currently managed by Serco. Bill spent 15 years working with CalMac Ferries and David MacBrayne as a consultant and then as a director. In retirement Bill has provided ferry related consultancy advice for a number of projects in Scotland, England and overseas.

³ Friends of Isles of Scilly Transport (FRIST) is a campaign group, set up in 2011, to press for improvements to the Islands' transport links to the mainland. Contact Marian Berkeley 01720423954, 07765 686165.

The Levelling Up Bid prospectus requires bidders to 'demonstrate how they represent value for money to society.' We would be very surprised if ministers thought they were getting value for money spending about £40m helping a private company perpetuate an obsolescent freight operation using cranes and pallets when RoRo has become the industry standard, and the option of a single combined passenger and freight RoRo ship and service exists. Whilst Scilly seeks to perpetuate the past for perhaps another 30 years, Scotland seeks to upgrade its last LoLo ferry service to Fair Isle to RoRo⁴, a project that is also now competing for the Government's 'Levelling Up' funds.

In more detail:

Benefits to the community

One or more new vessels are clearly necessary to replace the life expired ones. There are two issues.

A new RoRo ship can turn round in 30 minutes and offer services for freight to all comers who would compete to provide the best services and prices – as happens on nearly all ferries in Scotland. Scilly would not need a separate freight ship as part of its ask to government. This would save over £19m capex, whilst offering customers better services and around 50% lower freight charges.

Most islanders would like a combined passenger and freight ship to operate all the year round – more frequently in summer but still perhaps three times a week in winter, and would be pleased to know that their freight, food and drink, building materials as well as cows and pigs would travel reliably with them. The Steamship Company will not commit this to the Council, suggesting instead that in winter passengers could travel on the new freight ship, whose speed would be 10 knots rather than up to 8 knots on the existing vessel, arguing that this represented a 20% saving in journey time, but omitting to say that this would still mean 4 hours rather than 5 hours on the existing freight vessel, or compared to 2 ½ on the larger and more comfortable passenger vessel.

But then one realises that the sea crossing costs around £60 single whereas the Skybus from Lands' End (also run by the Steamship Company) over £90 and the helicopter from Penzance at nearly £130. If you make the sea crossing in the winter too attractive, then the other two services will lose customers. FRIST has long argued that a passenger fare of £40 adult single all the year round would be much more beneficial to the island economy.

So here we have the classic monopoly situation. *Don't bother to modernise; ask for more ships than are necessary, make the winter sea crossing as uncomfortable as possible to divert passengers to air (often cancelled due to fog) and ensure that, by refusing to install ramps for RoRo at the ports, there is very unlikely to be any competition from other operators since nobody now operates LoLo vessels which have to wait for many hours loading each of 400 pallets with a crane.*

⁴ Fair Isle's £25m Levelling Up Fund bid: www.shetnews.co.uk/2021/05/25/sic-lines-up-25m-funding-bid-for-fair-isle-ferry-improvements/

Some years ago, there was a fear in Scilly that a RoRo service would create an invasion of visitor vehicles, but these have been successfully banned on some Scottish islands by local regulations. This could be done in Scilly if the community wanted it.

Freight costs and services

Business concerns expressed on the islands include:

- Delays of up to a month getting goods shipped especially plant.
- Turning away of goods delivered to PZ quay either because staff are not working, there is no room for goods or no secure area to store. There is also often difficulty with the booking in service required mainly for carriers delivering for the first time.
- Goods are often sent back up country because carriers cannot deliver.
- wait times for vehicles queuing on the quay and way down the road in PZ means many drivers will not wait and take goods away again.
- Many companies will not deliver for customers on Scilly because it is too much hassle and expense in waiting time for their drivers.
- Companies like DPD will not deliver 24 hour or 48-hour goods in those time slots as it is uneconomic, so they hold goods up to seven days then deliver in one.
- Delivery of freight to the quay as parcels, mixed size pallets and various plant and equipment is inefficient for handling and loading.

Businesses comment that 'this is not a future proof system that will be efficient and safe to operate for the next 30 years'. The solution is of course RoRo.

Freight charges: For a 1 tonne bag – mainland £57, Islay £77, Scilly £117.

The IOSSG freight price list⁵ is somewhat complex so, for the purpose of this overview, we used the costs of taking one 1-tonne bag of aggregate or animal feed from PZ to an Off island. We understand from some off island customers that the average charge for this is around £60 per tonne so we use this as a base case. This is confirmed by quotes from the mainland; a 1 tonne bag of sand including VAT in Penzance (Travis Perkins - £57) , Isles of Islay (Build Base Islay = £77) and Scilly (Scillonia Building Supplies £117.50) not only confirms this premium for delivery to IOS (£60.50) but demonstrates how much cheaper is the premium for freight by RoRo to Islay (£20), where the distance is similar to PZ to St M. Build Base Islay stated they paid 20% - 30% extra for bulk materials (aggregates) compared to the mainland.

A better way to provide the service.

The COIS says that no other operators are interested in providing the shipping services. They cannot have looked very hard. FRIST knows of at least four operators who would welcome the chance to tender to provide the services, and demonstrating how much this could be improved, especially with a free-issue ship to keep down fares and charges. We recommended an ownership of the vessels which is separate from the operator – possibly by one of the Councils (Cornwall Council had indicated some years ago that it might be prepared to do this). An alternative is through

⁵ <https://www.islesofscilly-travel.co.uk/freight/prices/>

a leasing company controlled by a council on behalf of the Government to ensure that state funded vessels were being operated to be benefit of the community.

There is also benefit of retendering the operation of the vessels - perhaps every 5 to 10 years – to keep the operator 'on its toes'. All subject to a specification set out by the COIS covering all services, timetables, passenger and freight charges etc.

The COIS argue that the Levelling Up Fund encourages bidders to commit to 10% private sector funding to support their bid. The COIS is proposing that the IOSSG provides £4m as their capital contribution. The problem here is that would give the IOSSG a monopoly ownership of the vessels for their lives (perhaps 30 years) with the COIS having very little control over operations. The offer of the COIS being offered a seat on the Board of the IOSSG is better than nothing, but not nearly as good as an open competition to operate the vessels.

At least one shipbuilder has offered to provide a 10% capital input as part of its offer. This immediately separate the building of the vessel from the operation and needs to be explored taking independent legal advice.

The approach of the Council of the Isles of Scilly

The Council of the Isles of Scilly did not formally approve working with the Steamship Company until 20th May, although officers had been fully involved from March, whilst at the same time stating that they did not have time to consider formally an alternative RoRo proposal, as submitted by FRIST in early May and as recommended by the long-term adviser to many island consumer interests, Bill Davidson.

The urgency of submitting a bid to the first round of the Levelling Up Fund was used as an excuse for this uncompetitive approach. It is worth pointing out that the history of the request to government for support for new vessels and infrastructure was last expressed in the submission of a Strategic Outline Business Case in early 2020. It left open for future consultation the type of vessel(s) and services and noted that, although the IOSSG was continuing to design its future vessel but which it could not afford to fund, this would be separate from any plans and consultation by the Transport Board. Covid-19 prevented the Department for Transport from considering the SOBC whilst the IOSSG continued to develop their ideas, but these were confined to vessel design and never included the RoRo option which would require ramps or link spans.

So there has been no formal consultation on the various options for passenger and freight services, including the fares, costs and reliability. The Steamship Company's consultation specifically excluded any discussion on the benefits and disadvantages of RoRo; Derek Thomas MP undertook a very quick consultation, but the Council of the Isles of Scilly has not undertaken any consultation, as would be normal before embarking on such a project. FRISST would urge the COIS to undertake a formal and wide-ranging consultation on options as soon as possible.

Competition

When applying for government funding, there is normally a need to demonstrate best value for money unless there are strong reasons of timing or other for recommending single source supplies, or the non-availability of alternative suppliers. Here, there is the issue of procurement of the

vessels and the operation of the services.

For the design and supply of vessels, there is the failure of the Council to look at the full range of alternatives in design for passenger and freight services. Whereas the IOSSG has made good progress in the design and specification of new vessels, its refusal to consider RoRo vessels (with a crane) and the consequent need for two vessels for the Penzance run where one RoRo could deliver is surprising. It is unclear whether the vessels chosen by the IOSSG are best value for money in terms of crewing, specification and general design as suitability for the route. The IOSSG video comparing new for old vessels suggest a very stable ride compared to the Scillonian III in rough conditions; whereas installing stabilisers will help reduce rolling, pitching is unlikely to be much improved since resisting this is mainly a factor relating to the length overall of the vessel, something that is little changed from the Scillonian III. It is surprising that the COIS in seeking to be the guardian of public funding has not seen it necessary to involve an independent assessor of the IOSSG designs and other plans – not only the need for two rather than one vessel, but its design, crewing, operations etc and the resulting capital and operating costs.

The COIS paper for a meeting on 10 May stated that 'there are no known competitors seeking to operate this route', a justification for continuing with the existing monopoly. Clearly the Council did not try hard enough to find any, since FRIST knows of at least four reputable ferry companies who would be interested in operating this route, especially with a free-issue new ship. Putting the operation of the vessels out to competitive tender would undoubtedly bring new ideas on better services, fares, charges and costs. Similarly, there would be benefits in limiting the operating contract or franchise to 5 to 10 years, to keep the successful operator on its toes! The operator's bids would be much more competitive if the services were based on RoRo rather than LoLo, since this allows operators to bring in alternative vessels at time when the main vessel goes for maintenance or in the event of an emergency. However, other operators would certainly be interested in tendering for an initial LoLo service in the event that the provision of shore ramps were delayed; they would strongly recommend that any new vessel would be built as a RoRo design but with a crane on board for LoLo use. We recall that every other such ferry in the UK and many on the continent are RoRo and suggest that continuing with LoLo system therefore contributes to preserving the steamship company's monopoly for at least the potential 30-year life of the vessel to the detriment of the islands' economy.

Ownership of the vessels

The COIS is proposing that the new vessels should be owned by the IOSSG – a gift of around £44m of tax-payers money to one company without competition. The arguments appear to focus on simplicity and the encouragement in the Levelling Up Fund documentation for a 10% contribution from other sources.

This of course could be from another government fund or councils, although the latter is unlikely, given the funding shortfall that councils already suffer. The COIS has interpreted this as needing £4m from the IOSSG, and it appears that the IOSSG has agreed to this provided that they procure the vessels and operate them presumably for the life of the assets – perhaps 30 years.

However, it is unclear if the COIS has investigated alternative sources of such funding which could avoid the IOSSG being given a contract to design and operate the vessels with minimum supervision.

FRIST and Bill Davidson have investigated whether shipyards could provide such a contribution if they received the order for the vessels. Two have confirmed that they could do so in a way that does not contravene WTO and other international and government rules and are more than willing to explore this option. It is a pity that the COIS has not apparently sought to follow this up, if necessary, by seeking independent legal advice.

The FRIST/Bill Davidson RoRo alternative

Bill Davidson proposed to island stakeholders, the Isles of Scilly Transport Board and others a complete change of operation to RoRo as has been done in Scotland over the last thirty years and is now propose for the last LoLo service (to Fair Isle) as part of a bid to the Levelling Up Fund.

This included discussions with shipbuilders in the UK and continental Europe, including with Infrastrata, the new owners of Appledore Shipyard, as well as with officials in the BEIS and Transport departments. We also had discussion with harbourmasters at Penzance and St Mary's over the shore works needed for RoRo.

Outline proposals for RoRo were submitted to the COIS at the beginning of May 2021 to a timescale outlined by the COIS but the Chief Executive noted that he did not have time to read the documents.

The RoRo proposal includes one mixed passenger and freight vessel for the Penzance/St Marys route to a specification little different from that proposed by the IOSSG, except that it was based on a RoRo design with a crane. The estimated cost obtained from Damen in NL, one of the largest and most respected builders of such vessels, was £22.5m. The design could be finalised within a two-month period and delivery from placing of firm order was two years.



Damen DRPa7213 RoRo modified to take the ground and moor stern to a ramp.

Similarly, Damen offered an inter-island RoRo freight vessel for £2.5m. They confirmed that the final design could accommodate access to each of the off-island quays, and that they would of course visit them to ensure that the ramps, draft and other arrangements would achieve at least the same tidal access as is available to the existing vessel without the need for any alterations or

additions to off island quays – including Tresco.

Discussions with harbourmasters at Penzance and St Marys' indicated that it was feasible to construct ramps for a RoRo vessel at the current locations of berthing of the Scillonian III. The Damen or other similar vessel would be designed to berth at these ramps stern to and, of course, take the bottom. At Penzance, there was a preference for the ship to berth in the wet dock in the winter since this would provide more shelter than the berth on the South Quay. This of course means that the services would operate on a tidal basis since vessels can only enter and leave the wet dock at times of high water but, with a planned service of perhaps three times a week, timetables can be published in advance and relied upon. The estimated costs of each ramp are £4m and, although there are not sufficient design details to include in the current COIS bid, it would be important to include a sum for design and preliminary works so that a full application could be made for the second round of the Levelling Up Fund.

For passengers, the access to and from the vessels would be little different with LoLo and RoRo – by gangways – but we are strongly of the opinion that greater effort must be made to improve the passenger facilities in Penzance by the inclusion of a sheltered check-in and waiting area as well as better arrangements for baggage collection. The present arrangements are distinctly third world! Such a facility is needed whatever the type of vessel, and a budget to allow for preparatory work should have been included in the COIS bid.

With RoRo, there is no need for reception facilities for freight. Bill Davidson comments: *in Scotland the ferry companies don't provide consolidation or delivery services. This is undertaken by private enterprises who consolidate, pay for the carriage of their vehicle on the ferry and deliver to end customers on the islands. In busier islands there is competition between carriers which brings price and service into the equation for customers.*

Regular trade such as supermarket deliveries, beer supplies, NHS supplies, etc are all much sought after as well as the one off and parcel delivery contracts on behalf of DPD, Hermes, Amazon, Yodel, etc. Depending on volume/weight everything from a small van to 44te artics were used by the various companies.

Of course, Artics could not get round the roads of St Mary's or the off islands!

The greatest benefit of RoRo is for freight, and Bill Davidson's advice based on operations in Scotland is lower costs, lower charges and flexibility of operation. Why else would Scotland have made all these changes over 30 years?

How urgent is the need for new vessels and what can be done to mitigate this?

There is clearly concern in the Isles of Scilly to ensure that the lifeline service to the mainland survives.

The IOSSG has stated that the three vessels need urgent replacement, especially before the next MCA survey in 2025. The company points out that, whilst the present vessels continue in operation, costs and therefore charges will rise by 2.5% per annum. However, FRIST analysis⁶ indicated that

⁶ FRIST Analysis of passenger numbers and fares 2002 to 2021.

Scillonian III fares have risen by 67% since 2002, an average increase of 3.5% per annum, so it could be argued that extending the lives of these assets will be more cost effective to customers than operating new vessels.

However, breakdowns may happen at any time, with the frequency depending as much on the quality of maintenance as the age of the assets. The IOSSG's record on this is variable, with maintenance-related delays and recent cancellations particularly affecting freight traffic and passenger luggage, and an apparent unwillingness to charter alternative shipping to maintain freight services. For example, in the first two months of the 2021 season, the crane on the Scillonian used for passenger luggage did not work and, because the freight vessel Gry Maritha was in for an unexpected longer maintenance, freight services, including fresh meat, were seriously delayed with suppliers threatening to stop supplying the islands. We question why the IOSSG did not charter a landing craft to maintain services.

However long it may take to get new vessels into operation, it is important to consider options for dealing with planned or unplanned transport failures. Ships need to take the bottom to maintain regular timetabled services and have ship-mounted cranes, and there are few of these around for charter in an emergency.

However, the need to take the bottom can be mitigated by operating vessels on a tidal basis which may take longer but would ensure that a service could be operated.

The lack of a ship-mounted crane can be mitigated by hiring a shore mounted one at Penzance or St Mary's. Again, this would take time and add costs, but it certainly possible.

Freight vessel – one option is to carry more freight on the Scillonian III and/or operate landing craft when conditions allow. The latter already operate this route when there is sufficient demand to fill the craft, at which time the costs are overall lower than those of the IOSSG.

Passenger vessel – there are few of these around capable of taking the ground and coping with the sea conditions likely to be encountered on the route. Any vessel should also not be too much longer than the available quay length. Similarly, vessels which have a crane and operate only LoLo are few and far between. However, there are many more RoRo vessels around, some of which might be available. One such vessels is the MV Pentalina, recently retired from operating across the Pentland Firth. It is a RoRo vessel but could be used for a tidal service for passengers and carry some freight if a shore mounted crane were available. It is difficult to argue that a vessel such as the Pentalina is unsuitable for the sea conditions around Scilly when it has successfully operated across the Pentland Firth for ten years.

For the above reasons, we are very confident that the situation with the existing vessels is not so urgent that there is no time to properly and independently investigate a RoRo solution.

Cost comparison – RoRo to LoLo

Capital costs:	FRIST RoRo	COIS/IOSSG bid
New vessels to and from mainland	1 Ship RoRo passenger and freight £22.5m	1 passenger ship 1 freight ship
Inter-island freight ship	1 RoRo £2.5m	1 ship
Total for ships	£25m	£44m
Essential harbour works, power, freight	£3m	£3m
Freight improvements at Penzance	-	£2m
Essential DDA works inch TRESKO	£3m	£3m
Ramps for RoRo at PZ and St M	£8m	-
Totals	£39m	£52m

The COIS costs are understood to include a 10% private sector contribution, thereby reducing the COIS bid to below the £50m limit. The same should apply to the FRIST RoRo figures.

The ramps will need some time and cost for design, so it is suggested that the current bid should include £500,000 design and other preliminary costs, and that the construction costs should be subject to a bid in the second Levelling Up Fund bidding round.

A way forward

The present content of the COIS bid provides for an unsatisfactory, old fashioned solution that will fail any test of service improvement or efficiency of costs. Alternatively, fund the RoRo infrastructure and have some kind of competition for the operator (with or without a government-funded special vessel). This is the transformative option both for service provision and impact on the economy.

The COIS should therefore be advised to withdraw their bid and pursue a two-stage option:

For Stage 1 – revised first round Levelling Up Fund bid

Shore facilities – ramps at St M and PZ – initial design and permissions in Stage 1 Investigate new RoRo ship design to ensure compatibility with ramps.

Provide much improved passenger facilities at St Mary's – check-in, shelter, baggage etc.
DDA and power improvements as in COIS bid

Develop plans for ownership of vessel funded by taxpayer – by a Council of leasing company – and tendering for the operation of vessels – prepare to put out to tender on a 6-to-10-year franchise.

For stage 2 – second round Levelling Up Fund bids:

Construction and commissioning of ships – one PZ to St M and one inter-island – both RoRo

Construct ramps at St M and PZ for RoRo vessel.

Complete tendering and financing/ownership of vessels and services.

Result: Government savings of around £14m, improved passenger comfort and value for money and lower freight charges with competition introduced to keep up the performance of all involved.

Tony Berkeley⁷ 21 June 2021



A Calmac RoRo ferry - The Times 9 June 2021

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