



From Lord Berkeley
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Rt Hon Michael Gove MP
Secretary of State for Levelling up, Housing and Communities
London SW1

1 November 2022

Dear Michael,

Council of the Isles of Scilly Levelling Up Bid for new vessels and infrastructure to Scilly.

Congratulations on your appointment as S of S for Levelling up, Housing and Communities.

I wanted to bring you up to date with the latest situation in the bid dated June 2021 by the Council of the Isles of Scilly (CIOS) with the Isles of Scilly Steamship Group (IOSSG) for £48m for three new vessels and infrastructure improvements.

I live on the Isles of Scilly but have always opposed the procurement strategy at the heart of the bid because it sought a large amount of taxpayers' funding for capital grants for the benefit of one monopoly operator (IOSSG) without any independent assessment of customer need, without appraisal of the wider ferry sector's ability to meet those needs and without any opportunity for competition. It was, in my opinion, a proposal to support the current operator and maintain the status quo with the Government picking up the tab. Unsurprisingly, the Full Business Case for the project was turned down by the Department for Transport for non-compliance with Treasury procurement rules and lack of competition which was seen as a litigation risk. The Department for Transport's letter of 15 August 2022 provided the CIOS with some advice and offered continued development funding.

However, last week, the IOSSG Chairman was quoted in the *Cornishman* (27 October 2022 edition) as saying: *"If the Government remains intransigent on the key issues of ownership and control, competitive tendering, public procurement, design review etc. we will have to resort to financing the project ourselves"*. The statement raises concerns because the CIOS bid implicitly justified substantial Government grant funding on the assumption that 'market failure' existed, and yet the IOSSG Chairman's statement appears to contradict this assumption.

Clearly, reliable and cost-effective ferry services are necessary to support the Islands' economy. However it is extraordinary that there has been no independent assessment of customer need nor appraisal of the ferry industry capacity and interest in providing a solution, before opting for a major Government intervention. The process of strategic appraisal and option development appears to have been truncated, leading to a bid

modelled on the current operator's commercial preferences and methods of operation.

At present, the monopoly provider of services to and from the mainland is stuck in a 30 year time warp with a vintage passenger ship which does not operate in the winter, a separate freight ship where all cargoes are craned on and off in a manner that other ports abandoned decades ago in favour of Ro-Ro, and where costs and fares compare very unfavourably with other comparable services in the UK – to the detriment of the islands' economy.

The CIOS bid maintains this mode of operation, albeit with new vessels. No winter ferry service is proposed and freight costs will remain sky high. The continued reliance on air travel in the winter (via the IOSSG's Skybus service or the new helicopter service) and continued operation of separate freight and passenger vessels increases harmful emissions and drives up capital costs. Rather than 'levelling up' the IOS economy, the bid perpetuates the transport imposed 'glass ceiling' on the islands' economy. All this is 'achieved' at a high cost in Government grant funding terms.

The CIOS Levelling Up bid provides a unique opportunity to deliver modern harbour facilities supporting modern, efficient marine transport services following best practice seen elsewhere in the UK and Europe. My understanding is that there are a number of other operators who could provide better services than those proposed and who could do so with vessels they either own or could finance with less Government help than currently proposed. I hope that you will encourage the parties to the CIOS bid to explore all the options and focus on delivering 'levelling up' benefits which, for this project, should include modernisation of harbour facilities, reduced transport costs and improved services. The application of Government funding needs to be targeted so it is applied only when and where the situation warrants it.

I would welcome a meeting with you or a colleague to discuss this further.

Yours, Tony

Lord Berkeley