

Isles of Scilly link key messages

An overview of the project proposals



PROOF

Introduction

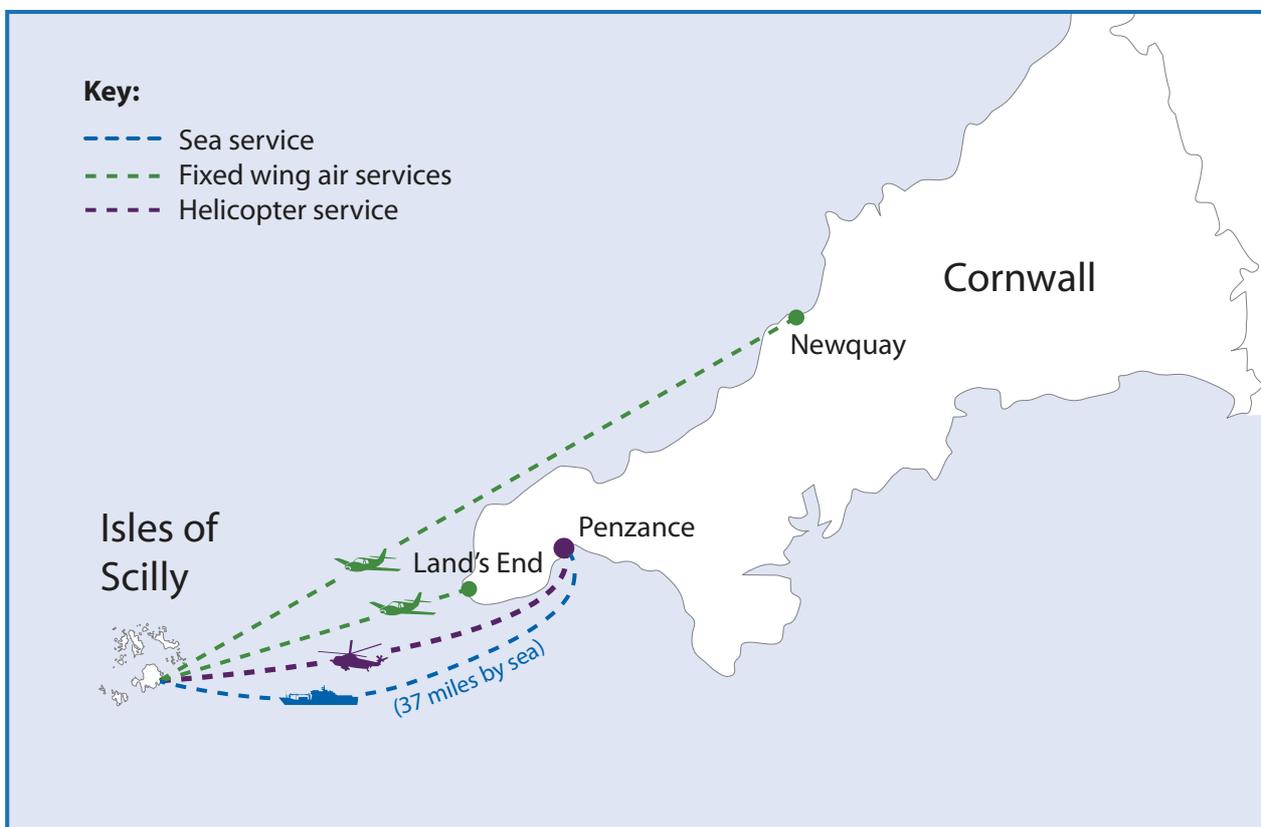
The role of the sea link is to transport passengers and freight between the mainland and the Isles of Scilly.

There are historical records of a regular passenger service from 1845 and passenger and freight service from 1859 followed by a succession of trawlers, drifters and coasters provided by the Ministry of Shipping to carry passengers and essential supplies. Following the end of the First World War, the Ministry announced that the service would end and islanders were told to make their own arrangements for transport. This led to the formation of the Isles of Scilly Steamship Company who have provided a regular sea service for passengers and freight since 1920.

There are currently many operational deficiencies at Penzance and St Mary's harbours and the service is operated using vessels nearing the ends of their operational lives.

The Isles of Scilly Link Project was instigated in 2002 to provide a long term financially sustainable transport solution to the Isles of Scilly through a package of harbour works and a new combined passenger and freight vessel. Work on the harbour improvements is currently programmed to commence in Spring 2011 in order for works to be completed before the new vessel enters service in the Spring of 2013.

This document sets out the issues with the current harbours and vessels, the project proposals, financial model and funding split, savings that have been achieved through the design process and the risks associated with alternative options.



Transport links between Cornwall and the Isles of Scilly

Issues with current service operations

Penzance harbour



Waves overtopping sea wall



No provision for coaches to drop-off



Lack of passenger protection



Poor passenger facilities



Restricted freight handling space on North Arm



Lack of space leading to conflict between leisure and freight users

St Mary's harbour



Waves overtopping sea wall



Lack of protection for passenger vessel



Lack passenger protection



Lack of space and storage for freight



Narrow quay entrance (shared access for vehicles and pedestrians)



Narrow quay entrance (shared access for vehicles and pedestrians)

Vessel status

At present, the sea service is provided by a private operator (Isles of Scilly Steamship Company) using two vessels. Scillonian III operates a passenger service between March and October and Gry Maritha operates an all year round freight service. The vessels are in excess of 30 years old.

Passenger vessel

- Vessel entered service in 1977 as a combined passenger and freight vessel designed specifically to meet the specific operating requirements of the Penzance to St Mary's route
- Operates between March and October sailing up to 6 days per week and works with the aviation sector to maintain links
- Vessel refitted in 1999 with a view to extending the vessel life until 2014 subject to MCA certification.
- Vessel does not currently comply with EU legislation 98/18 relating to safety rules and standards on ships. The legislation only allows for vessels up to 35 years old to be modified.
- Scillonian will be 35 years old in 2012 and MCA previously advised the vessel could operate to the end of the 2012 season if a new vessel was under construction
- Following Government's announcement that a funding decision would not be made until January 2011 the MCA have now instructed that the vessel must comply with EU 98/18 before the licence is renewed for the next season
- The MCA have indicated that the vessel will only be licenced to operate to carry 400 passengers with weather restrictions further limiting the operations and reducing the financial viability of the service



Scillonian III - Carries 90,000 passengers and 1900 Tonnes per annum (35% of all visitors and 15% of sea freight)



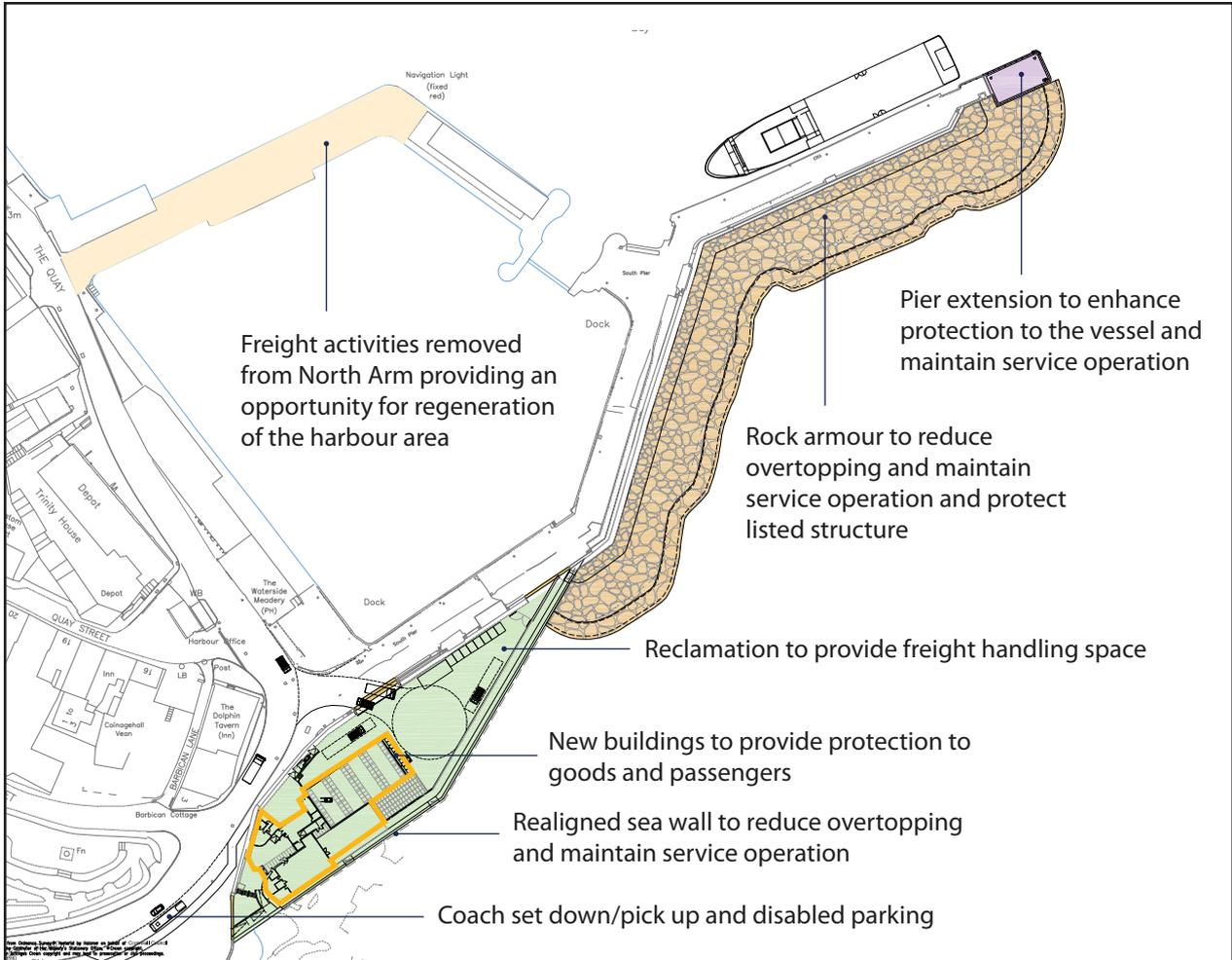
Gry Maritha - carries 11,100 Tonnes of freight per annum and together with Scillonian III carries 95% of all goods to the Isles of Scilly.

Freight vessel

- Vessel built in 1981 originally as a Norwegian coaster and acquired for use as the freight vessel in 1989
- Operates all year round sailing 3 times per week
- 2009 condition survey concluded that subject to moderate investment the vessel should be able to operate until 2014
- Vessel is becoming increasingly more susceptible to damage and breakdowns (due to its age and the heavy sea conditions encountered on the route) and escalating operating costs

Project proposals

Penzance harbour



General arrangement



Photomontage of proposals



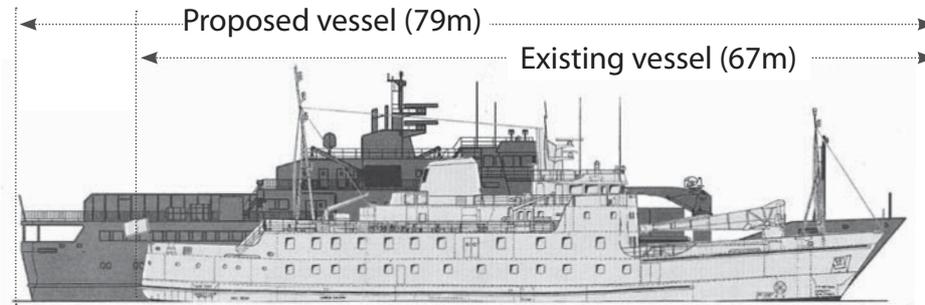
Photomontage of proposed entrance to freight facilities



Photomontage of proposed passenger and freight building

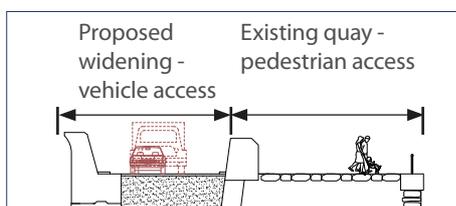
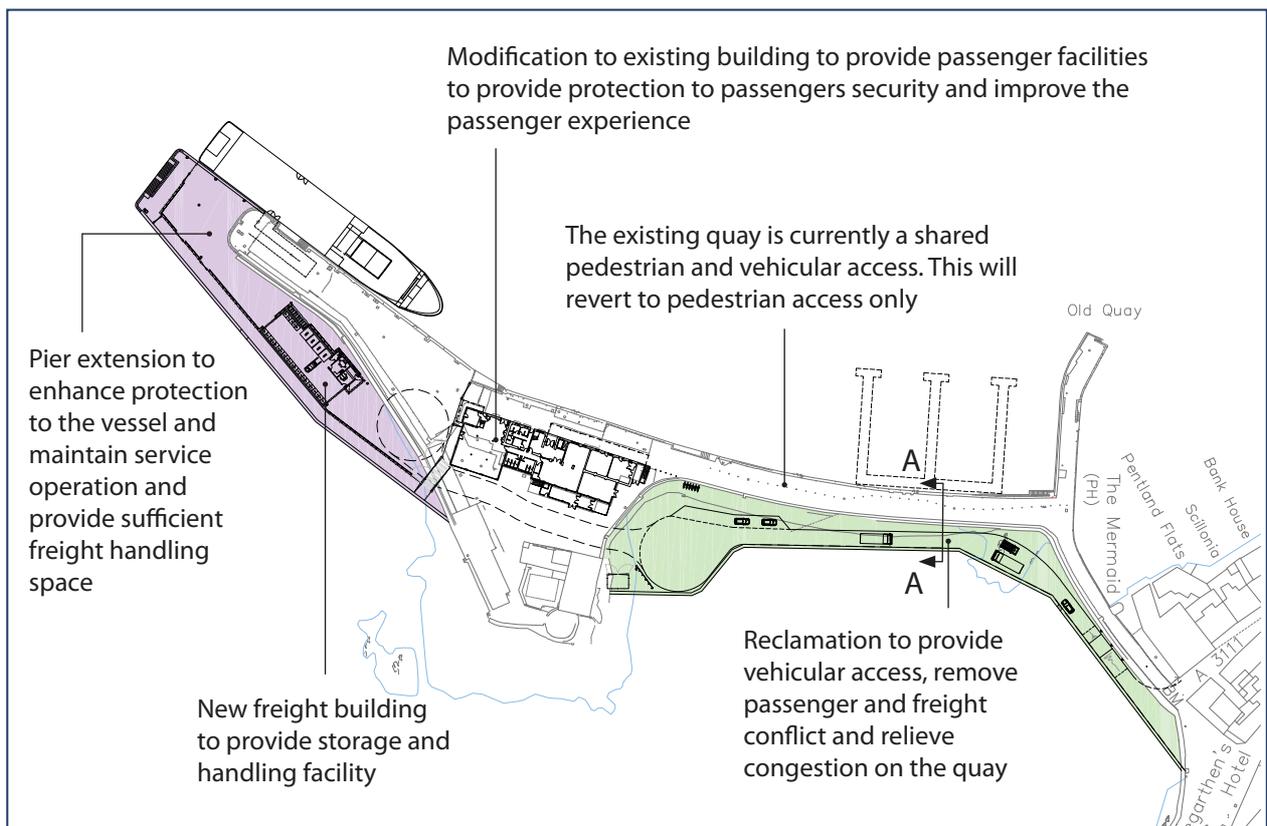
Combined freight and passenger vessel

The new vessel will operate all year round carrying passengers and freight between the mainland and the Isles of Scilly. The vessel will be bespoke to the requirements of the harbours and the route which includes a shallow draft and the ability to 'take the ground' at the berth due to the tidal range experienced. The vessel will be capable of carrying the full range of goods required to support the island community. The crossing time will be similar to the current vessels.



The vessel will be to a modern layout and have improved sea keeping due to the increased vessel length and stabilisers. This will lead to improved passenger comfort.

St Mary's harbour



Cross section AA

Photomontage of proposals

Photomontage of proposals

Proposed financial model

The financial model has been developed with the DfT to generate a financially sustainable solution that will see no cost being borne by the public sector in the future.

Vessel

Cornwall Council borrow £10m and together with grant funding acquire vessel and charter to private sector operator



Charter fee repays borrowing and builds up reserve fund towards purchase of next vessel (after 2038). Costs of operation and maintenance of the vessel will be borne by the private sector operator



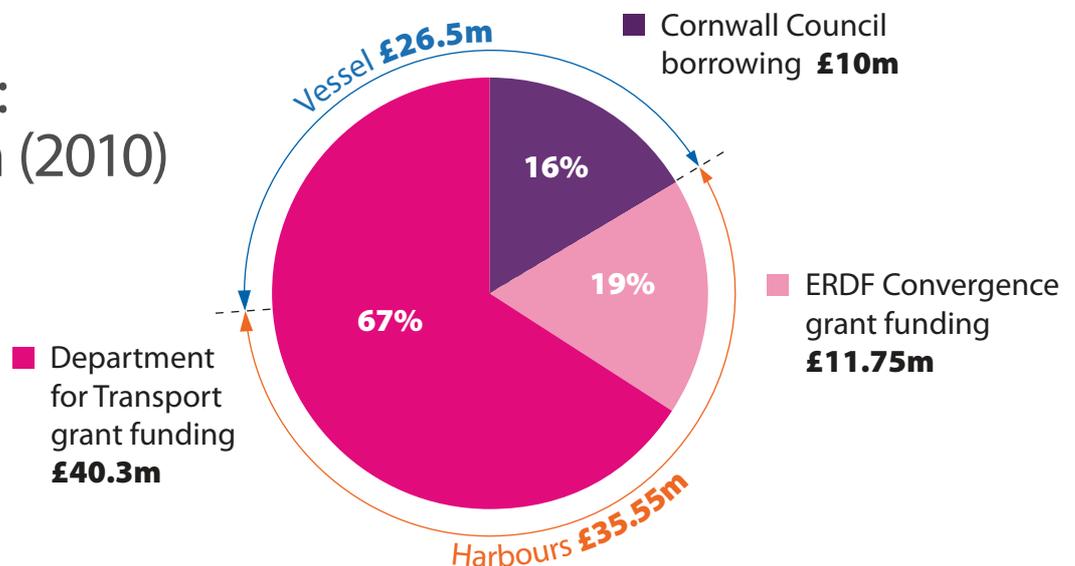
Cornwall Council procure a new vessel in 2038 using reserve fund and borrowing (repayable from future charter fee income).



Harbour

Maintenance and dredging of the harbours will be financed by the harbour dues and facility charges paid to the harbour authorities by the private sector operator.

Total cost:
£62.05m (2010)



Project costs and summary of savings

A major scheme bid was submitted in 2004 and an addendum in 2006. Since receiving Conditional Funding Approval in May 2007 the specification for the harbours and vessel has been reviewed and reduced to the minimum required to achieve long term sustainable transport solution. In addition, a retender of the vessel build has seen the price fall from £31m to £21.7m.

Penzance harbour

- a** Dredging removed **£0.87m**
- b** Pier extension reduced **£4.95m**
- c** Infill deleted **£0.335m**
- d** Reclaim area reduced **£0.645m**

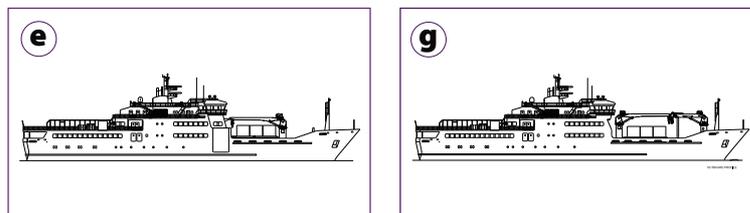
Total Penzance harbour savings: **£6.8m**



Vessel

- e** Reduction in vessel speed from 20 Knots to 15.5 Knots **£7.45m**
- f** retender of vessel build **£9.3m**
- g** Removal of pallet hoist from vessel design **£0.85m**

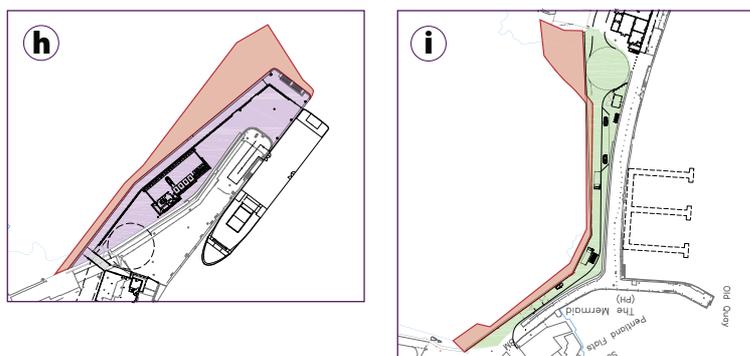
Total vessel savings: **£17.6m**



St Mary's harbour

- h** Pier extension reduced **£1.3m**
- i** Reclaim area reduced **£0.2m**

Total St Mary's harbour savings: **£1.5m**



Total project cost savings: £25.9m

Risks associated with alternative options

During the development of the project a number of alternative proposals have been suggested. These have been reviewed in terms of ability to address the current service issues and the key risks including the long term financial sustainability of a solution.

- **Do nothing**

- Passenger service ceases
- Private sector replaces freight vessel: freight costs increase by 50%
- Reduction in visitors to Isles of Scilly and West Cornwall
- Loss of 79 direct jobs plus further losses as a result of reduced trade for local businesses
- Long term viability of a community on the Isles of Scilly under threat

Doing nothing would mean an increase in freight costs of up to 50% from current rates.

- **Separate freight and passenger vessels**

- Separate vessels are £400k more expensive per annum to operate than a single vessel
- Reduction in charter fee that operator could pay the Council so reducing level of Council investment to the project
- Reserve fund for next replacement vessel diminished
- Unable to provide a long term financially sustainable solution

Separate vessels or out of town (Penzance) freight facilities do not lead to a long term sustainable solution for the sea link between the Isles of Scilly and the mainland.

- **Out of town (Penzance) freight facilities with minimum harbour works and a combined vessel**

- Reclamation area reduced as freight building elsewhere but remainder of harbour works still required
- Double handling of goods associated with transfer from the out of town freight depot to the harbour would increase the operating costs
- Risk to timetable reliability through delays in transferring goods to the harbour
- Reduction in charter fee that operator could pay the Council so reducing the level of Council investment to the project
- Increased capital grant required from Central Government
- Reserve fund insufficient for next replacement vessel

Options comparison

| | Do nothing | Separate freight and passenger vessels (with reduced harbour works) £72.84m | Out of town (Penzance) freight facilities with minimum harbour works and a combined vessel £61.55 m | Combined freight and passenger vessel and harbour works (Penzance and St Mary's) (CC preferred option) £62.05m | |
|------------------|--|---|---|--|------|
| Penzance | Overtopping reduced | | ✓ | ✓ | ✓ |
| | Improved protection to vessel | | ✓ | ✓ | ✓ |
| | Improved passenger protection | | ✓ | ✓ | ✓ |
| | Congestion removed from the quay | | ✓ | ✓ | ✓ |
| | Congestion removed from the highway | | ✓ | ✓ | ✓ |
| | Conflict between passengers and freight removed | | ✓ | ✓ | ✓ |
| | Freight handling space improved | | ✓ | ✓ | ✓ |
| | Ability to operate to increased port security requirements | | ✓ | ✓ | ✓ |
| | Passenger experience improved | | ✓ | ✓ | ✓ |
| Vessel | Passenger experience improved | | | ✓ | ✓ |
| | Vessel sea keeping improved | | | ✓ | ✓ |
| | MCA requirements accommodated | | ✓ | ✓ | ✓ |
| St Mary's | Overtopping reduced | | ✓ | ✓ | ✓ |
| | Improved protection to vessel | | ✓ | ✓ | ✓ |
| | Improved passenger protection | | ✓ | ✓ | ✓ |
| | Congestion removed from the quay | | ✓ | ✓ | ✓ |
| | Conflict between passengers and freight removed | | ✓ | ✓ | ✓ |
| | Freight handling space improved | | ✓ | ✓ | ✓ |
| | Ability to operate to increased port security requirements | | ✓ | ✓ | ✓ |
| | Passenger experience improved | | ✓ | ✓ | ✓ |
| Key risks | Higher fares | ✓ | ✓ | ✓ | |
| | Reduced patronage | ✓ | ✓ | ✓ | |
| | Increased service disruption | ✓ | ✓ | ✓ | |
| | Unlikely to generate charter fee (cannot support Council investment) | ✓ | ✓ | ✓ | |
| | No future vessel reserve fund | ✓ | ✓ | ✓ | |
| | Adverse impact on economies (West Cornwall and Isles of Scilly) | ✓ | | ✓ | |
| | Threat to viability of community on Isles of Scilly | ✓ | | | |
| | Not future proofed to adapt for higher security level | ✓ | | ✓ | |
| | ERDF Convergence funding lost (£11.75m) | ✓ | ✓ | ✓ | |
| | DfT funding requirement | £?m | £?m | £?m | £41m |

Questions and answers relating to funding

Why doesn't the private sector provide a new vessel (or vessels)?

If new vessels were provided by the private sector at commercial rates of interest this would require a significant increase in the level of fares and threaten both the viability of the service and the community on the Isles of Scilly. The charter of a vessel (or vessels) from a shipping agent has been considered but due to the specific requirements of the route a bespoke vessel must be provided.

Why does the current operator not charter/buy a second hand vessel?

Due to the specific vessel requirements of the route it is unlikely that a suitable second hand combined freight and passenger vessel could be identified. Investigations to date have failed to source such a vessel.

Why is the Council proposing to own the vessel?

To safeguard the link and ensure a vessel replacement fund is established.

Can the Council increase their investment?

Any increase in the Council's investment would adversely impact upon the reserve fund and threaten the long term financial sustainability of the sea link.

If an out of town freight option is cheaper to deliver then why does the Council not promote this option?

The Council reported (January 2010) that an out of town freight facility at Penzance would reduce the capital cost of the project by £500,000. However the operating costs of the service would increase by £330,000 per annum. Assuming the Council borrowing is retained at £10m the Council's costs are not recovered in 25 years and there is no reserve fund established.

Would a solution with separate vessels be cheaper to deliver?

The total cost of separate new vessels with their associated harbour works is over £10m more expensive than the Council's preferred option of a combined freight and passenger vessel. Furthermore the operating costs of two vessels have been shown to be £400k more expensive than for a single vessel. This would impact upon the charter fee that an operator could pay to the Council and the resultant level of Council investment.

If a cheaper vessel solution was adopted could the Council's £10m investment be transferred into the harbours?

The Council's level of investment is tied to the charter fee income from the operation of the vessel. If a short term vessel solution was proposed the charter fee and Council investment would reduce with possibly no investment to transfer to the harbours.

Project development

This project has been developed by the Isles of Scilly Route Partnership established in 2003. The partnership comprises Cornwall Council, The Council for the Isles of Scilly and the Duchy of Cornwall.

Project delivery

All statutory approvals have been secured and there are no outstanding legal challenges. All elements of the project have been competitively tendered through European procurement procedures and contracts are ready to be awarded.



St Mary's quay

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