

Notes of evidence

Name of meeting	POLICY COMMISSION FOR BUSINESS AND INFRASTRUCTURE
Date and time	WEDNESDAY, 24 SEPTEMBER 2008 AT 4.00 PM
Venue	COMMITTEE ROOM 1, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Commission	Cllrs Jonathan Fitzgerald-Bond (Commissioner), Charles Hancock, John Hobart, Peter Humber, Roger Mazillius, Ian Ward
Officers Present	Mr Jonathan Baker - Committee Administrator Ashley Curzon – Acting Head of Regeneration Mr Paul Thistlewood – Principal Overview and Scrutiny Officer
Others	Mr Andrew Willson – Chief Executive of Wightlink Mr Clive Tilley – Commercial Director of Wightlink
Apologies	Cllr Henry Adams

1. **Notes of Evidence**

The notes of evidence from the previous meeting on [23 July 2008](#) were agreed

2. **Declarations of Interest**

There were no Declarations of Interest received.

3. **Cross Solent Ferry Costs**

3.1 The Chief Executive of Wightlink reported to the Commission that Wightlink Ltd was a UK Company like any other that would conduct its business in accordance with the Companies Act 2006. However, because it was not a public limited company, it did not have to comply with the Financial Services Regulations 2001.

3.2 Mr Willson outlined the position of the Macquarie European Infrastructure Fund in relation to Wightlink. The company was at present unaffected by the current economic crisis and Wightlink was still planning to invest in its services.

3.3 Members were advised that whilst such information as the incurred debt of Wightlink. when it was purchased in 2005. was available to anybody who wished to know, such information as the purchase price was not in the public domain.

3.4 Mr Willson reported on each of Wightlink's services. This indicated the following :-

- (i.) Ryde Pier Head – Portsmouth Harbour (Foot passenger). This was the least profitable route and if operated on its own would not be seen as a viable business venture.
 - (ii.) Yarmouth – Lymington (Car Ferry). This also provided poor levels of profit and would also not be seen as an acceptable business proposition in its own right.
 - (iii.) Fishbourne – Portsmouth Harbour (Car Ferry). This route was seen as the most successful operating route and generated good levels of profit which effectively subsidised the two other routes.
- 3.5 Operating profit was also affected by the age of the ferries and the subsequent work needed to maintain them.
- 3.6 It was therefore important to make routes (i) and (ii) more profitable and one measure that was being put in place was the introduction of the new Car Ferries Lymington/Yarmouth route. These ferries had a larger capacity and were also more fuel efficient. An investment in new catamarans for the Ryde to Portsmouth service would also be aimed at making the service more economic and efficient to operate.
- 3.7 The last full Office of Fair Trading (OFT) Investigation was published in 1991 and referred the Cross Solent Ferry Market to the Monopolies and Mergers Commission for a full investigation. Subsequent OFT reviews had since been held in 1995 and 2000 to ensure that Wightlink were operating within the correct parameters established in 1991. Further investigations were not required as the competitive situation had not changed.
- 3.8 During the 1991 investigation it was established that the most appropriate measure of performance was the return on the replacement cost of capital. The key findings were therefore:
- (i.) Not accurate to say that there was no competition between the various cross Solent ferry operators.
 - (ii.) Levels of fares to be considered against the cost of service provision – operating profit.
 - (iii.) Fares had risen in line or slightly less than the Retail Price Index (RPI)
 - (iv.) Neither profitability nor fares prices were considered to be against the public interest.
- 3.9 Members were advised that since 1991, ferry fares had, with the exception of foot passengers, either risen less than the RPI rate, or as with the case of Coaches, decreased in real monetary terms.

3.10 Since 2005 the following fare increases were recorded:

- (i.) Foot Passengers – 21.3% Increase
- (ii.) Cars – 3.5% Increase
- (iii.) Coaches – 1.3% Increase
- (iv.) Commercial / Freight Vehicles – 4% Increase

Since the 1991 OFT enquiry Wightlink had established a benchmark for price rises linked with RPI. Taking a baseline of 100 in 1991 the 2006 would be 149.4. Broken down for the 4 principle modes this indicated that for foot passengers the level was at 194.2; cars 122.9; coaches 87.1 and freight 115.7.

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3.12 The Mr Tilley advised that up to September 2008, some 93% of traffic had not paid the full ferry fare. This was due to the numbers taking advantage of various promotions such as early or block bookings.

3.13 The Commission was concerned that members of the public found the website facilities of Wightlink difficult to navigate and could not always find the best deals. Wightlink accepted these concerns and advised the Commission that measures were being put in place in order to help improve the website. It was anticipated that such improvements would be in place by April 2009 following a £2million investment in a new computer system.

3.14 It was stated that there was a misconception that using online facilities was a cheaper method of securing tickets. This was not the case as the same fares could also be accessed via the Call centre. .

3.15 The Commission was also told that Wightlink would always try to offer consumers the most competitive rate available for travel. The most expensive tickets would often be obtained when consumers turned up at the last minute at the terminal.

3.16 Concessions for students were raised and Wightlink stated that it offered discounts for those in full time secondary education on the mainland. These consumers are offered a 50% reduction up until the age of 18, effectively offering child rates.

- 3.17 After the age of 18, students attending College or University could access a 15% discount off season tickets with the production of appropriate identification.
- 3.18 The Chief Executive of Wightlink indicated that a fare scheme that would make use of the existing Island Student Rider Card could be explored at some stage.
- 3.19 Members were advised that following the OFT review, one of the parameters set was that Wightlink's level of return on replacement capital employed of 12% would not be deemed to be excessive given the high level of capital that had to be employed . On average it was recorded that levels of return were below 12% with 6-7% recorded in 2005 and low figures forecast for 2008.
- 3.20 Investors in the company accepted that the economic crisis was not a short term situation and that any return on their investments would not be anticipated until beyond 2010-2011.
- 3.21 Mr Willson believed that should ferry fares be regulated, value for money would be compromised and service levels would decline, especially on routes that ran at a loss.
- 3.22 In order to overcome the recent increase in the cost of fuel a surcharge had been introduced in May 2008. The surcharge was calculated on the average cost of Brent Crude Oil per barrel the previous month. There were 9 bands which started at \$85. The company in setting its price structure at the start of 2008 had allowed for costs of fuel to be \$60 per barrel. The surcharge did not apply until the price of \$85 per barrel which meant that the company had accepted a 30% without passing this onto customers.
- 3.23 The surcharge was reviewed on a month by month basis and any increase / decrease would result in a change in the surcharge. In August 2008 the cost of a barrel of oil was recorded at \$105 – \$115 and would equate to an extra £1.50 per car per leg of journey.
- 3.24 Subsequent decreases in oil prices had led to the surcharge being decreased in September 2008 and further reductions were hoped for in October 2008. It had been recently anticipated that if prices continued to decrease the surcharge could be removed by the end of November / December 2008, but a slight stall in the downward trend in prices meant that this may need to be reviewed.
- 3.25 Despite using 11 million litres of fuel per year, limited facilities only allowed for fuel stocks sufficient to cover a period of several days.
- 3.26 Mr Willson was of the opinion that the introduction of an additional ferry operator across the Solent could have a negative effect on the consumer. Services could, especially in off peak periods, be affected and possibly decreased. Whilst fares would initially be

cheaper, any subsequent withdraw by an operator could lead to fares rising again to their original levels. This was the situation that had been experienced in the Channel Islands.

- 3.27 Members were advised that the advent of the music festivals, whilst good for the Island as a whole, were not as profitable for Wightlink as was perceived by the public. Whilst the ferries were well used by festival goers other passengers did not tend to use the services during these periods. By way of an example during the period of the Bestival 2008 it was recorded that Wightlink were approximately 12,000 cars down on the corresponding period for 2007.
- 3.28 Wightlink would however continue to support such event by offering with high levels of discounts to enable the infrastructure that needed to come over to the Island as this assisted in the Island's economy generally.
- 3.29 On board income for the ferries had also been looked at. Whilst facilities had generally been improved in recent years the average spend per passenger on a ferry crossing was less than £1.00. It was accepted that the relatively short journey times was a prime reason for that.
- 3.30 The Commission were advised that from the £55 million overall turnover, commercial freight accounted for about £10 million or some 18–19% of the overall business. However this included all commercial vehicles including small vans.
- 3.31 Specific packages were tailored to each individual business need. These were not however classed as contracts as competition legislation ruled against this.
- 3.32 Other methods that offered benefits to the Commercial sector would be for block bookings with a discount off the standard tariff. This would equate to some 3,000-4,000 separate arrangements.
- 3.33 Such favourable deals for commercial traffic was seen as an anomaly within the transport industry as it was usually freight that would help subsidise the car. However, Wightlink felt that such arrangements help the Islands economy.
- 3.34 In terms of hotels trade rate arrangements had been put in place. It was possible for smaller hotels to amalgamate and enjoy similar trade arrangements although Mr Willson stated that any income lost by agreeing to such an arrangement in one area would need to be made up elsewhere as operating costs still had to be met.
- 3.35 Special rates were offered for caravans for off peak periods. This was to help alleviate the numbers of caravans in peak times. Caravans did not pay proportionately the same as other vehicles of a similar size although such custom was considered an important part of the Island Tourism trade. Mr Tilley advised that

Wightlink worked with the Caravan Club and placed advertisements in their publications to promote the Island.

3.36 Mr Willson gave an assurance to the continued availability, capacity and frequency of services operated by Wightlink.

3.37 In response to the Commission inviting members of the public to ask questions Mr Patrick Sealey enquired how the replacement cost to capital was calculated. The Chief Executive of Wightlink replied by saying that a mechanism established in 1991 calculated this by taking the historic costs of the assets and escalating and depreciating it by the RPI factor. He also reported that £200 million of assets was recorded on the Wightlink balance sheets. This included the land and terminals that it owned.

The Meeting closed at 17.39

Chairman.....Date.....
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