



**Isle of Man
Government**

Reilrys Ellan Vannin

GD 2016/0045



Report on
Liverpool Landing Stage/
Strategic Sea Services Agreement

July 2016

Department of Infrastructure

Foreword

To the Hon. Clare Christian MLC, President of Tynwald, and the Hon. Council and Keys in Tynwald assembled

This paper addresses one of the most fundamental influences on the Manx economy. Everyone who lives here is aware that their economic and social wellbeing depends upon our sea links with our neighbours. If we cannot secure reliable long term arrangements for people and goods to cross the Irish Sea, then quite simply our future as an independent community is at peril. Sea links have sustained us for thousands of years and will remain critical for many years to come, as although air travel provides valued connections for passengers and light, urgent or high value freight, the commodity items that sustain our economy and fill our shops all reach us and indeed leave us by sea.

The first and most pressing issue addressed by this report is the need for a new landing stage in Liverpool. Tynwald supported the funding of the existing landing stage in the 1970s and this is now at the end of its safe life; by 2019 we have to secure a replacement or face losing our most popular sea route. Liverpool is not only the nearest major UK city to the Isle of Man, it is our gateway to the North West of England and our route to involvement in the UK's Northern Powerhouse initiative. When Tynwald supported the funding of the existing landing stage, it did so in a way that secured the involvement of the ferry service provider. Without securing a user for a new landing stage in Liverpool, Government could not be sure that there would be a return on its investment, either in terms of finance or in terms of services.

This leads to the second issue addressed by this paper, the possibility of a new Sea Services Agreement to replace the current Linkspan User Agreement. Even though the current agreement runs until 2026, the Isle of Man Steam Packet Company wishes to negotiate a replacement that will run for a further 15 years to 2041. In return for this continued period of near monopoly service provision the company is willing to offer improved services, new vessels, a permanent backup vessel and new safeguards, including restrictions on debt and on the sale of the company.

On balance I believe that we should agree to start negotiations on a new agreement and that we use these to secure the long term use of a new Liverpool landing stage on land that we should buy at Princes Half-Tide Dock. If we do nothing, we could end up with no links to Liverpool and face significant difficulties in finding a new ferry company to take over in 2026 when the company with extensive experience, contacts and contracts has made it very clear that it would intend to remain on the route using its own linkspan to operate an overnight freight service. This could leave Government in the difficult position of having to consider a subsidised passenger and car ferry service as the more lucrative freight business would have to be shared with another operator. This paper explains and explores the many options available to us before recommending the purchase of a site in Liverpool and the negotiation of a new agreement that would be returned to Tynwald later in 2016 for final consideration.

Hon P A Gawne MHK
Minister for Infrastructure

LIST OF RECOMMENDATIONS

Section One: Recommendations for Strategic Priorities – Page 9

Recommendation 1

That Tynwald endorses the eight strategic principles for the Strategic Sea Services as being as follows:

- i. High quality sea transport is a critical element in serving international trade and services must be to appropriate international standards.
- ii. Reliable sea transport which has a proven record of operating safely at all times of the year in the challenging Irish Sea environment is a key requirement and has a critical impact on the quality of life and cost of living on the Island.
- iii. Long term arrangements that clarify future services and costs promote economic stability and increase certainty for businesses and consumers.
- iv. Direct and reliable sea transport service links to the main freight and passenger ports in adjacent jurisdictions must be retained to ensure rapid and direct access to centres of population and distribution, rail and trunk road infrastructure.
- v. Reduced duration of crossings and lower costs of travel encourage more frequent short stay travel, reduced business costs and faster delivery times.
- vi. The size of ferries and timing and frequency of sailings must provide sufficient capacity for the fluctuating daily demands of passengers and freight customers while recognising the operational constraints of Douglas harbour. This includes the provision of additional capacity for planned tourism events including the TT and other predictable short term seasonal peaks in demand.
- vii. High quality terminals and vessels are a crucial element in providing prominent gateways to the Isle of Man, ensuring passenger comfort and creating a good first impression. This includes investing in public areas, customer service, customer information, and customer welcome.
- viii. Government should work with stakeholders to encourage appropriate investment in the Isle of Man economy and Douglas harbour development through: marketing activity; protecting the Isle of Man's shipping lanes; supporting suitable expansion at strategically important ports; supporting improved transport links within the United Kingdom to the North West of England; promoting stability in Isle of Man maritime service providers.

Recommendation 2

That Tynwald agrees that these principles should form the basis of a new Strategic Sea Services Policy.

Recommendation 3

That Tynwald requires the Department to present the new Strategic Sea Services Policy for Tynwald approval in November 2016.

Section Two: Recommendations for a new Landing Stage – page 19**Recommendation 4**

That Tynwald supports the Department spending a sum not exceeding £3.5 million for the purchase of a site at Princes Half-Tide Dock, Liverpool.

Recommendation 5

That Tynwald endorses the Department's preferred option of seeking an open tender for a design and build contract to develop a new terminal facility but on the basis that no work should begin on developing the facility until agreement has been reached with a ferry service provider to operate from the facility.

Section Three: Recommendations for a New Agreement – page 26**Recommendation 6**

That Tynwald approves the Department negotiating a draft legal agreement to cover the development of a new Strategic Sea Services Agreement with the Isle of Man Steam Packet Company Limited, subject to a requirement that the Department brings the proposed legal agreement back to Tynwald for final approval.

Recommendation 7

That Tynwald requires the Department to seek further concessions from Isle of Man Steam Packet Company Limited in relation to break clauses and the financial transparency of the company in the final Strategic Sea Services Agreement.

TABLE OF CONTENTS

LIST OF RECOMMENDATIONS.....	3
SECTION ONE: INTRODUCTION, STRATEGIC PRINCIPLES AND CURRENT SITUATION.....	6
INTRODUCTION.....	6
STRATEGIC PRINCIPLES	7
CURRENT SITUATION	8
RECOMMENDATION FOR STRATEGIC PRIORITIES	9
SECTION TWO: CONTROL OF PORTS.....	9
CURRENT SITUATION	9
STRATEGIC OPTIONS	10
ALTERNATIVE SITES.....	13
PROPOSED NEW LANDING STAGE	16
POTENTIAL DEVELOPMENT COSTS	17
LAND COSTS	17
DELIVERY AND PROCUREMENT OPTIONS.....	17
CONCLUSIONS.....	19
RECOMMENDATION FOR A NEW LANDING STAGE	19
SECTION THREE: FERRY SERVICES	20
BACKGROUND.....	20
PRIOR INFORMATION NOTICE	20
STRATEGIC SEA SERVICES WORKING GROUP	21
OPTIONS CONSIDERED BY THE STRATEGIC SEA SERVICES WORKING GROUP	21
IOMSPCo PROPOSAL.....	25
CONCLUSIONS.....	26
RECOMMENDATIONS FOR A NEW AGREEMENT	26
SECTION FOUR: OVERALL CONCLUSIONS	27
SECTION FIVE: SUMMARY OF RECOMMENDATIONS.....	27
APPENDICES	28
Appendix 1 - Maps of Liverpool Landing Stage Sites	28
Appendix 2 - IOMPSCo offer paper	28

SECTION ONE: INTRODUCTION, STRATEGIC PRINCIPLES AND CURRENT SITUATION

INTRODUCTION

1. The Isle of Man's social and economic success depends upon links to the UK, and to a lesser extent Ireland, for the transportation of people and goods. Without secure and reliable UK transport links there can be no importation of raw materials or finished goods and no export of locally manufactured products. Whilst air links can successfully meet the needs of leisure and business travellers, goods have travelled by sea to and from the Island for thousands of years and there is every likelihood that sea transport will continue to provide this key economic link into the future. This is reflected in the Agenda for Change national outcome that "we have safe and reliable transport services that support our communities and business".
2. At the most basic level, the key capital assets required to safeguard the sea services are the harbours at each end of the routes and the vessels used to link them. Many other communities have faced similar issues with lifeline services and a range of options have been considered and followed to achieve the reassurance of route security. Indeed, the Isle of Man has previously faced this issue and in the years between 1971 and 1975 debated the need for involvement in securing UK port access, concluding in February 1975 with the decision to lend £1.75m to the Isle of Man Steam Packet Company Ltd (IOMSPCo) to fund the construction of the current Liverpool Landing Stage by the Mersey Docks and Harbour Company. That loan was repayable with interest, with any difference between the interest rate charged and the prevailing market rate being regarded as a subsidy for tourism.
3. Prior to the commissioning of the Department of Infrastructure ('the Department') linkspan in 1975 both linkspans installed in Douglas Harbour were privately owned. The Manx Line linkspan was installed in 1978. In 1980 the IOMSPCo linkspan was sited on the south side of the Edward Pier. During the period 1978 to 1985 there was open competition for the provision of sea services between Sea Link/Manx Line and the IOMSPCo. The outcome of this competition was that neither company was able to trade profitably as the market place was not large enough to support two ferry operators. In 1985 the companies merged, bringing both linkspans under the direct control of the IOMSPCo. This private ownership meant that the seamen's strikes of the late 1980s rendered both linkspans unusable, with significant impact in the Island.
4. Prior to the introduction of the User Agreement in 1995 the Isle of Man Government had no control over the provision of sea services to and from the Island. The installation of a linkspan in 1995 by the Department gave the Island greater long term protection of its sea routes both by reducing the opportunity for industrial action to put the Island's linkspans out of use and by providing the basis for a long term service agreement that gave almost exclusive access in return for service guarantees. The resulting agreement has provided long term certainty about services and costs; whilst this is important to leisure passengers it is essential to the business community. The original 1995 Linkspan User Agreement therefore had two key objectives:

- a) To provide a requirement that the IOMSPCo operated a minimum level of services based on the 1993 schedule with a control on future fare increases based on the 1995 fares and charges; and
- b) To provide a customer for the new Douglas Harbour linkspan constructed by the then Department of Transport.

The agreement has been amended over the years but continues to meet these objectives. It can remain in force until 2026.

STRATEGIC PRINCIPLES

5. The Environment and Infrastructure Sub-Committee of the Council of Ministers considered a paper on strategic sea services on 27th January 2015. Among the strategic principles identified and agreed were the following references to infrastructure and route security. These have been updated and will form the core of a new Isle of Man Government Strategic Sea Services Policy Document which will be presented to Tynwald for consideration in November 2016. They are:

- i. High quality sea transport is a critical element in serving international trade and services must be to appropriate international standards.
- ii. Reliable sea transport which has a proven record of operating safely at all times of the year in the challenging Irish Sea environment is a key requirement and has a critical impact on the quality of life and cost of living on the Island.
- iii. Long term arrangements that clarify future services and costs promote economic stability and increase certainty for businesses and consumers.
- iv. Direct and reliable sea transport service links to the main freight and passenger ports in adjacent jurisdictions must be retained to ensure rapid and direct access to centres of population and distribution, rail and trunk road infrastructure.
- v. Reduced duration of crossings and lower costs of travel encourage more frequent short stay travel, reduced business costs and faster delivery times.
- vi. The size of ferries and timing and frequency of sailings must provide sufficient capacity for the fluctuating daily demands of passengers and freight customers while recognising the operational constraints of Douglas harbour. This includes the provision of additional capacity for planned tourism events including the TT and other predictable short term seasonal peaks in demand.
- vii. High quality terminals and vessels are a crucial element in providing prominent gateways to the Isle of Man, ensuring passenger comfort and creating a good first impression. This includes investing in public areas, customer service, customer information, and customer welcome.
- viii. Government should work with stakeholders to encourage appropriate investment in the Isle of Man economy and Douglas harbour development through: marketing

activity; protecting the Isle of Man's shipping lanes; supporting suitable expansion at strategically important ports; supporting improved transport links within the United Kingdom to the North West of England; promoting stability in Isle of Man maritime service providers.

6. The key theme is that the Isle of Man should be in a position to control its sea links to adjacent jurisdictions generally but to ports in the North West of the United Kingdom in particular. The aim of safeguarding this vital strategic asset involves consideration of the ports, the ferry operation and the cost of this safeguarding. The different stakeholders will have different and sometimes competing requirements. The Department suggests that the key requirements of the key stakeholders as follows:

Government:

- a) Safeguard of vital strategic asset
- b) Modern, cost effective, well run operations
- c) Minimal/no contribution from public purse

Public:

- a) Regular, reliable operations
- b) Lowest possible prices
- c) Highest quality services

Operator:

- a) Certainty of regulatory framework
- b) Maximisation of financial returns
- c) Independence from political interference

7. Whilst this summarises the key issues, the Department is committed to drafting a new Isle of Man Government Strategic Sea Services policy document which will be presented to Tynwald for consideration in November 2016.

CURRENT SITUATION

8. The Linkspan User Agreement can remain in place until 2026 but the Island is entering a period of uncertainty in respect of its sea services. IOMSPCo obtained a backup freight vessel, the MV Arrow, following a period of service interruption caused by vessel unreliability at a time of poor weather in the winter of 2010-11. The cost of this is not provided for in the Agreement and IOMSPCo has made it clear that it does not regard it as economic to keep the Arrow on charter beyond 2017 if a new agreement cannot be reached. This vessel provides significant capacity at TT periods as well as increasing overall service reliability. IOMSPCo has made it clear that it would need a new agreement to be long term if capital investment in vessels is to be afforded.

9. The current Agreement requires, amongst other things, that services are operated by fast craft to a port within a defined Liverpool Port Range for most of the year. Currently these services are operated to Pier Head, Liverpool. That facility is leased by IOMSPCo from its

owners, the Peel Group¹. The structure is in urgent need of replacement but without a long term agreement IOMSPCo cannot commit to a lease of sufficient length to allow the Peel Group to justify the major capital investment required to build a new facility. Once it became clear that these private sector businesses were unlikely to be in a position to reach agreement, the Department joined negotiations separately with the Peel Group in respect of a possible agreement over a new landing stage in Liverpool and with IOMSPCo in respect of a replacement for the Linkspan User Agreement, to be known as the Strategic Sea Services Agreement.

10. The options for the operation of the services and the provision of vessels are covered in this paper in the section dealing with the possibility of a new strategic sea services agreement; the options for securing the ports are covered in the next section.

RECOMMENDATION FOR STRATEGIC PRIORITIES

11. The Department recommends that Tynwald:

- a) endorses the eight strategic principles outlined above;
- b) agrees that these principles should form the basis of a new Strategic Sea Services Policy; and
- c) requires the Department to present the new Strategic Sea Services Policy for Tynwald approval in November 2016.

SECTION TWO: CONTROL OF PORTS

CURRENT SITUATION

12. The current landing stage at Liverpool is operated by the Mersey Docks and Harbour Company Ltd, part of the Peel Ports division of the Peel Group. The operator has concluded that the current landing stage is coming to the end of its safe working life; indeed, two sections of the 1970's construction have already sunk into the Mersey. The current contract between the Peel Group and IOMSPCo ends on 31 December 2016. Whilst the Peel Group could extend the use of the landing stage into 2019 at the latest, this will mean that they will have to ensure the landing stage remains afloat and safe to use, which will require increased maintenance support and cost. Representatives of the Peel Group have made it clear that no investment will be made either in short term repairs or major capital replacement unless there is a long term commitment from a ferry operator to use the facility and hence finance the investment through the payment of rents and charges. Under the current Linkspan User Agreement, IOMSPCo has certainty of operation only until 2026 and is therefore not in a position to enter into a landing stage agreement for more than 10 years. This is not adequate to permit the proper funding of a major capital investment in a new facility. The Peel Group has made clear that the current landing stage will not be usable beyond the 2019 season even if major maintenance works were

¹ Given the corporate structure of the Peel Group for simplification within this report the term "Peel Group" has been used exclusively to prevent any confusion that may occur from referencing each Division or Company of the Peel Group.

undertaken and that those works would only be undertaken as part of a long term agreement to develop or use a replacement facility.

13. As a result, the Peel Group approached the Isle of Man Government to ascertain whether or not there was a Government interest in securing the long term provision of a Liverpool Landing Stage. This paper explains the conclusions of the work undertaken by *the* Department on behalf of the Isle of Man Government to investigate the options for and costs and benefits of a replacement facility. Whilst the Department has made it clear that any such agreement to any such option will require Peel Ports to maintain the existing facility until such time as a new facility can be brought into use, any contract for that interim use will be negotiated between IOMSPCo and the Peel Group; IOMSPCo has indicated that it hopes to secure a continuation of the current contract price which is capped to a maximum UK RPI increase.

14. The Peel Group suggests that a new facility for the IOM ferry service (regardless of operator or funder) should be located about a third of a mile downriver from the current 1970's landing stage at Princes Half-Tide Dock. This is the only site that the Peel Group put forward for a new facility to accommodate the IOM ferry services. The Peel Group operates the docks in Liverpool and Birkenhead and, under its Peel Holdings (Land and Properties) Ltd operation, owns the 150 acre Liverpool Waters development site that stretches from Pier Head to the Northern Docks. Being downstream of the current site in a part of the Mersey that has speed restrictions the location of the new facility would potentially offer a small improvement in crossing times. In April 2015, the Peel Group suggested indicative costs of circa £18m (excluding land) for developing and constructing a new facility, consisting of a link span plus terminal and vehicle marshalling facilities, providing a like for like replacement of the existing facilities. The Peel Group identified the Princes Half-Tide Dock site as being the most suitable part of the Liverpool Waters development for a ferry terminal.

15. In summary, without clarity and certainty that there will be a ferry service operating from any replacement for the current landing stage, the Peel Group is unwilling to carry out the necessary short term maintenance to the existing landing stage or assist in the provision of a longer term solution to the issue.

16. Without a new agreement between the IOMPSCo and the Isle of Man Government the company is unable to give the reassurance to Peel Ports that there is a long term commitment to operating to and from Liverpool.

STRATEGIC OPTIONS

17. The Department accepts the strategic importance of links to the North West of the United Kingdom, currently provided at the ports of Heysham and Liverpool. Irish routes remain important, particularly to the visitor economy and for domestic and social travel but there are no suggestions at this time that access to Belfast and Dublin is threatened by port issues. While those using the Irish routes are likely to express concern about the service provided, the routes themselves are not threatened.

18. In 2015 during the early stages of considering how best to proceed with the delivery of a new strategic sea service agreement the Department carried out a consultation exercise with

the public and businesses.² The results of the 2015 survey indicate that when asked the question “in future which would be your single preferred destination” out of the total of 1,247 respondents, only 41 responded to give an alternative destination in Ireland. When the responses from businesses are analysed there were no destinations in Ireland preferred; the Department had expected some suggestion that Larne might be served.

19. The Liverpool route is threatened by the loss of the current Liverpool landing stage. Under the current contract arrangements this could occur as soon as the end of this calendar year. The Heysham route is not threatened but access is increasingly constrained by periods of inadequate draught when low tides couple with inadequate dredging. Dredging is of course an operational issue for the provider, the Peel Group.

20. In commencing a review of the Liverpool Landing Stage issue the Department has considered three main options:-

- a) Do nothing, potentially leading to the loss of Liverpool services;
- b) Encourage the Peel Group to refurbish the existing Pier Head landing stage facilities for long term use; and
- c) Seek an alternative site

Option1: Do nothing

21. The current landing stage in use at Liverpool is subject to a commercial agreement between Peel Ports and IOMSPCo, which ends in December 2016. There is no obligation on Peel Ports to continue the agreement or indeed to enter into a new agreement from 2017. Based on the advice from Peel Ports, the Department expects that the current landing stage will be taken out of use and redeveloped for cruise liner use by 2019.

22. Without an alternative site on the Liverpool side of the river the only option for the Isle of Man ferry service under the current Linkspan User agreement would be to use the other ports that fall within the Liverpool Port range defined under that agreement if suitable slots could be obtained. Such ports are the Twelve Quays berth at Birkenhead, Mostyn or Holyhead. These options cannot be guaranteed and could be seen by ferry customers as a reduction in service and usability.

23. As part of the 2015 public consultation response to the single most preferred destination for future ferry travel is Liverpool with 65% of all respondents indicating this as being the preferred destination. Further analysis of this data reveals that in terms of those who responded as an identified business user 50% of these indicated Liverpool as their preferred destination in the future ahead of 43% indicating that Heysham was their preferred destination. Only 3 respondents in the business sector specified another alternative destination these being Dublin, Holyhead and Warrenpoint (Northern Ireland).

24. Whilst it is important to consider all passenger preferences it is perhaps sensible to give greater consideration to those using the services more frequently than those occasional users. For this reason the results from the 2015 survey have been analysed to assess where those travelling more than 6 times a year have actually been within the last 12 months and where they would prefer the service to go in the future. This analysis shows that of the more frequent

² Consultation on Ferry Services <https://www.gov.im/ConsultationDetail.gov?id=531>

travellers 39% had travelled mostly to Liverpool, 35% to Heysham and the remaining 26% had travelled about an equal number of times to both ports in the last 12 months. With regards to future destinations those same frequent travellers indicated that the vast majority (63%) would prefer to travel to Liverpool with 35% indicating Heysham and the remaining 5% providing alternative destinations.

25. On the basis of this survey there is clearly an expectation from the Manx public and businesses alike that sailing to and from Liverpool is an important aspect of the strategic sea service.

26. On the basis of the above consideration, the “do nothing” option is not judged by the Department to be a suitable course of action.

Option 2: Refurbish the existing landing stage

27. The Department has no contractual or other control or jurisdiction over the use of the existing landing stage under the current arrangement, which is based on a contract between private companies. The existing facility is the last part of an original 1970’s longer landing stage, two sections of which have already sunk in the Mersey. Any agreement to refurbish the existing landing stage however can only be with the Peel Group’s support and at some significant cost in order to keep the landing stage afloat. Irrespective of the questionable value of investing to secure the short term future of a life-expired asset, there is every indication that the preferred future use of the Pier Head is to service cruise liners. The Department is aware that the cruise liner facility is key to the economic regeneration proposals of Liverpool City Council, which announced in March 2016 that it had commissioned design work on a permanent cruise liner terminal on the site.

28. The Department does not have the ability to recommend refurbishing the existing landing stage. Even if it were possible to achieve this it would not be recommended as the resulting outcome would be unlikely to meet the Strategic Aim of providing high quality access points and prominent gateways to the Isle of Man, ensuring passenger comfort and creating a good first impression. Any funding by the Department of the facility would add value to the asset of a private company and would not be likely to secure access to Liverpool for any longer than the life of the asset.

Option 3: Seek an alternative site

29. An alternative ferry terminal could be located elsewhere in Liverpool Docks or in another location altogether. For example, it would be possible to concentrate all passenger and freight services into Heysham Port. However Peel Ports also operates Heysham and Birkenhead, so an arrangement would have to be secured by IOMSPCo with Peel Ports if the Liverpool service was not to be pursued and passenger services could be operated at one of these alternative ports.

30. The Department’s 2015 public consultation shows that foot passengers and many car drivers prefer Liverpool as their destination. The Department’s 2015 public consultation asked respondents to identify which destination in England they had travelled to most over the last 12 months. 40% indicated that it was Liverpool, 30% Heysham and 24% replied saying it was “about the same”. This would indicate a preference towards Liverpool. The same data analysed from the business sector indicates that 52% travelled mainly to Heysham over the last 12

months with 33% to Liverpool and 13% indicating it was “about the same”. In terms of how this is further broken down in relation to frequency of travel those businesses using the service every day, once a week or more than once a month the preferred destination was Heysham whilst those using the service once a month preferred Liverpool.

31. Peel Group has not offered any alternative site within Liverpool Port for a new landing stage; the only site being offered for consideration by IOM Government is one of the 80 plots of land in the Liverpool Waters development for which the Peel Group has outline planning permission.

ALTERNATIVE SITES

32. At this stage no alternative site in Liverpool has been identified; an in-river berth is required if the lengthy delay of accessing a gated dock is to be avoided. The Department has, however, assessed the various ports lying within the North West port range.

Holyhead Port

33. Holyhead is located in Anglesey and lies 51 nautical miles (nm) from the Isle of Man giving a fast craft crossing time of 2 hours. It is a major Ro-Ro ferry port handling traffic between Dublin and Holyhead with first class facilities including a number of double deck linkspans. It is located two hours’ drive away from the major city centres of Manchester and Liverpool; it is 104 miles away from Liverpool Airport and 122 miles from Manchester International Airport. There is a rail station within the port which has direct links to London and Cardiff. Holyhead provides all the facilities required but suffers from the major drawback of its location and distance from the North West of England and motorway links beyond.

Mostyn Port

34. Mostyn Port is located on the Dee estuary 65nm from the Island giving a fast craft crossing time of 2 hours 35 minutes. It has freight Ro-Ro facilities able to handle 180 metre long vessels with a draught of up to six metres, accommodating both bow and stern loading vessels. There are currently six hectares of paved adjacent land however plans are in hand to redevelop the existing Ro-Ro berth into a multi-purpose solid quay with a load bearing capacity of 20 tonnes per square metre.

35. The linkspan has three lanes and has a 225 tonne working capacity. There are no passenger facilities. Mostyn has direct access from the port to a national road network via the A548. The M56 is 15 miles away. Although the port is rail connected the nearest passenger station is at Flint, 6 miles away. Access to the port from the Irish Sea is through the Mostyn Navigational Channel; the port is subject to significant tidal restrictions at times.

36. A few years ago P & O Ferries moved its Liverpool/Dublin ferry service to Mostyn for a short period before relocating back to Liverpool due to operational problems, thought to be linked to the lack of water.

Birkenhead Twelve Quays

37. Birkenhead Twelve Quays is operated by Stena Line. The berth has full passenger facilities and passage times are the same as for our current Liverpool services. The berth has been designed to handle large Ro-Ro vessels and is not currently suitable for fast craft. Due to the floating nature of the berth there would be considerable difficulties in trying to make the berth fast craft compatible; it is likely that any modifications made could render the berth unsuitable for Stena's vessels. In addition as the berth is in constant use by Stena Line vessels operating to Belfast there would be no window of opportunity to carry out the major construction works necessary to provide additional fendering and foot passenger access. Stena Line has exclusivity and priority use over the berth and the small passenger terminal so any use of this facility would require slot negotiations which would become more difficult should Stena Line recommence services to Dublin.

38. There is ready access to the M53 motorway. Rail connections are available from Birkenhead Hamilton Square Station, which is a fifteen minute walk from the ferry terminal; a link bus is available from Hamilton Square Station to the port at a cost of £2 per adult. Customers with a valid rail and sail ticket can travel free.

39. This facility is currently used by the IOMPSCo for the winter service but Stena Line has only been prepared to confirm availability on a limited winter-only basis and has not been prepared to enter into any long term commitment. Stena also makes a significant charge for the use of the terminal. The facility, whilst operated by Stena Line, is owned by the Peel Group. The berth has no direct passenger gangway; the installation of a gangway, if practicable, would require significant capital investment.

Fleetwood Port

40. Fleetwood Ferry Port is owned and operated by Associated British Ports and lies 56nm from the Isle of Man giving a fast craft crossing time of 2 hours. Fleetwood was used regularly by IOMPSCo until 1961 and then periodically from 1971. The port was previously used by Stena Line for services between England and Northern Ireland; these primarily freight services were withdrawn in 2010. There is a redundant Ro-Ro berth with a capability of handling 180 tonnes; this is likely to require significant capital investment before any use. Marshalling areas are available. There are no passenger facilities. The port suffers from severe tidal access problems which would make running a scheduled service extremely difficult. It is likely that Fleetwood will be developed to serve the offshore wind market. The port is situated on the edge of Morecambe Bay and has trunk road links to the M55 motorway.

Whitehaven Harbour

41. Whitehaven Harbour is tidal and the berths are too small and shallow to accommodate anything other than fastcraft on a tidal basis. There are no passenger facilities and no marshalling area. The harbour is not used commercially but has seen significant investment in marina berths and the harbourside environment. The port is located approximately an hour's drive from the M6. The advantage to Whitehaven as a destination from the Island is that it is the closest port to the Island giving sailing times of approximately two hours for a conventional vessel and one hour for a fastcraft.

Workington Port

42. Workington Port Authority operates a commercial freight port which has a Ro-Ro facility within its dock area. The port is 44 nm from the Island but access would be dependent on tides. There are no passenger facilities and no regular ferry traffic. The port is also located about an hour's drive from the M6.

Summary

43. The only suitable ports other than Liverpool that could presently accommodate the full range of services to and from the Island are Heysham and Holyhead. The major drawback to Holyhead is its location, being approximately two hours by road from the M56/M6 junction at Warrington. It is not conveniently located for road haulage distribution. The rail linkages to and from Holyhead to either Liverpool or Manchester are over 2 hours and with only a limited direct service. Heysham is of course currently used for freight and passenger services from the Island and, when the highway improvements currently under construction are completed, will benefit from increased onward connectivity and journey times by road.

44. The Stena Line control of the Birkenhead berth limits options, particularly in respect of slot times as Stena would have the first choice of times. It is also a difficult berth to use due to the strong currents in that part of the Mersey. IOMSPCo currently has to pay a significant fee to access Stena Line's very limited terminal facilities: the terminal has only around 100 seats. Whilst in theory this berth could be used by a Ben-my-Chree type vessel it is unpopular with passengers: numbers of passengers travelling on the Saturday morning sailing increased from a maximum of 200 to nearly 400 as soon as the Liverpool fast craft service recommenced.

45. It is clear that the current ports and berths at Liverpool and Heysham have been selected as they best meet the market requirements. If Liverpool were not available, the best option would probably be to concentrate services at Heysham. However as a major freight port Heysham's operator, the Peel Group may not be able to accommodate all Isle of Man Services. Slot availability and dredging issues have had an adverse impact on this year's TT sailings.

46. The Department has concluded that none of the other options within the North West port range are suitable particularly as they are unable to match, or better, the locational advantages of having a berth located within close proximity to a city centre location. The 2015 survey showed that 65% of foot passengers preferred to travel to Liverpool compared with 18% preferring Heysham. The remaining respondents indicated that they were "about the same" between the two locations. The alternative site option is therefore in practice limited to Princess Half-Tide Dock being the only site on offer and available which offers a credible alternative to the current facility in Liverpool.

47. Unless a new agreement is reached with IOMSPCo, the company can choose to operate to any port in the Liverpool Port Range, as defined in the Linkspan User Agreement, meaning that subject to the other provisions of the agreement services could be provided from Birkenhead, Mostyn or Holyhead if the IOMSPCo could secure access to these ports. The Department is of the view that Holyhead is the most realistic alternative if IOMSPCo wished to remain in compliance with the current agreement.

48. This of course highlights the linkages between the 2 main aspects of the strategic seas issues: the Department could procure a new landing stage in Liverpool but would not be able to compel IOMSPCo to use it unless a new agreement was in place. It is of course hoped that commercial and service realities would persuade IOMSPCo to agree to use the proposed new facility.

PROPOSED NEW LANDING STAGE

49. The potential brief for the site at Princes Half-Tide Dock was derived from the existing operation in terms of car/passenger numbers and consideration of market trends. Key requirements include:

- a) Creation of a 'universal' berth not specific to one vessel type. The facility will have to be sized to handle the Manannan and Ben-my-Chree but must be capable of future extension to be able to berth a vessel of 142m in length and minimum draught of 6m, these dimensions being the same as Heysham's maximum capacity;
- b) Capacity for 1,000 passengers with 800 seats (Manannan operates at an 800 passenger capacity);
- c) Checked in parking for 200 cars plus coaches;
- d) Drop-off and collection for foot passengers arriving or departing the terminal by foot, cycle, private car or public transport;
- e) Linkspan rated at 120 tonnes to provide contingency for freight vehicles;
- f) Creation of a facility that will enhance the Island's national identity and profile in Liverpool.

50. Princes Half-Tide Dock is adjacent to the existing West Waterloo Dock residential development and lies within the Liverpool Waters redevelopment site. The Liverpool Waters site benefits from outline planning approval for a mixed-use scheme. This comprises a major hotel, residential, business and retail development in close proximity in and around the proposed site.

51. The site location is considered acceptable, being approximately 800 metres North West of the current pier head landing stage. The distance of 800 metres equates to an approximate 10 minute walk and is comparable in distance from the Bottleneck Car Park to the War Memorial along the Promenade in Douglas.

52. Once redeveloped the area and surroundings for disembarkation for foot passengers will be pleasant and convenient for the city centre. For those who do not wish to walk a bus stop is approximately 100 metres away from the proposed terminal; the Mayor of Liverpool has confirmed that improved bus services to the area are being actively considered.

53. Freight traffic is not welcome within the Liverpool Waters development but the Peel Group is willing to permit the passage of freight vehicles in the event that Heysham Port is unavailable. The current Pier Head facility has no freight capability so the proposed limited freight use is a significant improvement over the current level of provision. Coach traffic will be able to use the proposed new terminal without restriction.

54. The proposed new site lies at the very southern end of a narrow "peninsula" at West Waterloo Dock and immediately in front of the Princes Half-Tide Dock. It sits directly opposite the northernmost end of Princes Parade, the existing terminal being at the southernmost end.

The proposed new site is linked to Princes Parade by an existing pedestrian walkway, the Alexandra Tower crossing, constructed on top of the retaining wall to the former entrance to the Princes Half-Tide Dock. The Liverpool Water master plan (**Appendix 1**) confirms that a pedestrian link at this location gives the site easy pedestrian access to Princes Dock, The Pier Head and Liverpool city centre. A "Promenade" is also suggested within the Liverpool Waters master plan, to run along the route of the suggested canal created by the future partial infilling of West Waterloo Dock, and along the eastern edge of the Princes Half-Tide Dock.

55. This proposal sits entirely within the ownership boundary of the Liverpool Waters site. A new road network, to be constructed and funded by Liverpool City Council, will discharge vehicles further north of the current facility, which combined with other planned highway schemes in the area will likely see an improvement to journey times to the main arterial network compared to those experienced at present.

POTENTIAL DEVELOPMENT COSTS

56. If the Department was to design and construct the facility it is estimated that the total development cost would be in the region of £25M; further costs could be incurred at some point in future if the option to extend to 142m capacity is required. The most significant costs of the development that have been identified to date would relate to land reclamation and associated civil engineering and external works. The design and specification of the new terminal buildings will influence the total cost but the provision of a terminal that provides both a good standard of passenger facilities and a positive image of the Island is important. In any case, in view of the sensitive and prestigious nature of the waterfront and World Heritage status in the near vicinity it is highly likely that the Liverpool City planning team will only permit a building of appropriate appearance and stature to be erected.

LAND COSTS

57. The land purchase costs are not agreed at this stage but the advice received from an independently appointed UK valuer confirms that the proposed value, at £1.5m/acre is considered acceptable and value for money. Discussions are ongoing in relation to the acreage calculation to ensure that dock infill and land reclamation are excluded from the calculation. The Department has concluded on advice that the site is worth no more than £3.5m.

58. The purchase would be based on a 236 year lease, being the balance of the Peel Group's original 250 year lease. This would give the Government long term strategic security for the site. It may be possible by negotiation to secure a sell back option such that if the land is purchased but the development is, for reasons currently unforeseen, unable to be progressed the Department would be able to return the land to the Peel Group without detriment.

DELIVERY AND PROCUREMENT OPTIONS

59. The Department has considered three delivery options; an analysis of the advantages and disadvantages of each option is given below.

Option 1: DOI delivery

60. A straightforward land purchase transaction followed by the Department progressing with its own delivery team, most probably on a design and build basis. The advantages of this option are:

- a) Full transparency of costs and procurement;
- b) Tried and tested Capital Procedures (albeit they would require adjustment to suit different jurisdiction).

The disadvantages of this option are:

- a) Never been done before at 'arms length' – the Department would have difficulties trying to project manage this scheme from a distance in a different jurisdiction with different construction legislation;
- b) Construction Risk is retained by IOM Government, though this may reduce under a design and build contract.

Option 2: Turnkey Contract

61. A 'turnkey' arrangement whereby the Department effectively purchases the completed facility developed by Peel Ports on an 'open book' basis. Whilst there would potentially be an advantage in selecting a turnkey contractor by competitive tender it must be accepted that both the development land and the harbour operations are under the control of the Peel Group. This means both that no alternative sites are available and that, even if there were other sites, the Peel Group could have a competitive advantage as both the major local developer and the harbour operator. The proposal for an open book agreement with the Peel Group is made on the basis that costs will be transparent and that the competitive advantages work to the benefit of both parties. The advantages of this option are:

- a) Peel Group's established supply chain and knowledge of the local construction sector;
- b) Peel Group's track record of development;
- c) Peel Group's relationship with the Liverpool Planning Department, City Council, Harbour authorities, Duchy of Lancaster and other key stakeholders;
- d) This development could be the catalyst for developing adjacent plots, especially if a portion of land fill is required, bringing economies of scale to both parties if delivered by the Peel Group;
- e) Transfer of construction risk (albeit at a cost);
- f) The developer will own the project until it is complete, and therefore it has the financial motivation to complete the job as quickly and efficiently as possible.

The disadvantages of this option are:

- a) 'Turnkey' procurement is essentially similar to 'Design and Build' and relies on the Client having a firmly established Brief – changes to the Brief will add significant cost – this means there is potentially a lack of control that the client maintains over

- design and construction decisions, which may mean that the project is not perfectly suited to its needs once it is complete;
- b) The premium payable for transferring the construction risk to the Peel Group could be perceived as not offering value for money ;
 - c) The developer may make construction decisions based on the short-term decisions needed to get the project completed rather than the long-term needs of the client.

Option 3: development by IOMSPCo

62. This option is as per Option 1, but with the development being funded and delivered with IOMSPCo. The advantages of this option are:

- a) Transfer of construction and cost risk;
- b) Transfer of significant Stakeholder management;
- c) IOMSPCo will own the project and will have the financial motivation to complete the job as quickly and efficiently as possible. It will be in IOMSPCO's interest to be less demanding in terms of finalising the design and construction brief;
- d) No need for IOM Government to identify or utilise capital funding beyond the land purchase.

The disadvantages of this option are:

- a) Public perception and concerns about IOMSPCo involvement in developing the scheme and its attitude in relation to recouping its capital investment and what this would mean for the paying passenger;
- b) To allow the Department to safeguard the Island's strategic interests in the long term any terminal investment will have to be linked to a new strategic sea services agreement in such a way as to ensure that the terminal facility can be purchased by the Department at market value if the agreement with IOMSPCo falls for any reason.

CONCLUSIONS

63. Taking into account the risks, advantages and disadvantages of the various delivery options, the Department favours seeking Tynwald approval to approve the land purchase at Princes Half-Tide Dock to allow for the construction of a new Liverpool Landing stage on the basis that it will then use an open tendering process to find a suitable development partner for the development of terminal and linkspan facilities.

64. Securing this support would ensure that the scheme continues to be actively progressed and that the Peel Group remains engaged in the negotiation process rather than seeking alternative uses for the site but the Department notes that it will not be able to start work on the site until a suitable agreement has been reached for its long term use by IOMSPCo.

RECOMMENDATION FOR A NEW LANDING STAGE

65. The Department recommends that Tynwald:

- a) supports the Department spending a sum not exceeding £3.5 million for the purchase of a site at Princes Half-Tide Dock, Liverpool, and

- b) endorses the Department's preferred option of seeking an open tender for a design and build contract to develop a new terminal facility but on the basis that no work should begin on developing the facility until agreement has been reached with the ferry service provider to operate from the facility.

SECTION THREE: FERRY SERVICES

BACKGROUND

66. The original User Agreement protected a minimum level of services and provided control on future standard fares and charges increases. However the opportunity was taken by Government in 2002, when the company exercised the option contained in the Agreement for a five year extension, to negotiate substantial improvements to the service frequency requirements. The original Agreement was for a ten year period from 1995 with an option exercised by either party for a further five years.

67. In 2004 a further ten year extension was negotiated to follow on from the then extant termination date of 2010, with an option for a further six years again exercisable by either party. The impact of this is that if the option is taken up the current User Agreement will continue in force until 2026. One of the requirements in the 1995 Agreement was for a capital investment in a new vessel, this led to the delivery of the Ben-my-Chree in 1998. The 2004 Agreement also required a further capital investment which led to the introduction of Manannan in 2009.

68. Whilst the original User Agreement and the various extensions have provided a significant increase in the control and influence Government has over the provision of strategic sea services, there are areas where further control or influence would be beneficial. It should be recognised that at the time the User Agreement was introduced in 1995 there was a much lower frequency of service and the only fares available were standard fares which very few passengers now pay. 80% of passengers benefit from the special offers now available which are outside of the schedule 6 fare controls in the User Agreement.

69. The vessels operating the services in 1995 were of an old design and did not reflect market requirements. In particular there was a shortage of daily freight capacity which meant at times substantial delays to the delivery of cargoes to the Island particularly commodity cargoes. These various changes and break points in the agreement have been shown over the period to allow the Department to negotiate changes to ferry services that better suit both the strategic aims and the emerging socio-economic priorities as these evolve over time.

PRIOR INFORMATION NOTICE

70. The current administration made a review of the Linkspan User Agreement one of its objectives. The Department working with Treasury Procurement arranged for a Prior Information Notice to be issued in December 2014 inviting interest in a future Strategic Sea Services Agreement. The aim of the Prior Information Notice was to determine what level of interest there existed with ferry operators in providing services to and from the Island and to

develop an understanding of the type of the services interested operators maybe prepared to provide. The Prior Information Notice resulted in twelve responses.

71. The twelve parties were asked to submit a more detailed response to a number of questions in a further information document. Five of the twelve parties responded and provided the information. The seven parties that did not respond indicated that they would need further discussions before they would be prepared to go further or that they required more time to respond or no reason was given.

72. The Department concluded that this exercise showed that although there was credible interest in operating the Isle of Man's strategic sea services the level of interest had been constrained by the fact that the opportunity did not exist until 2026. The Department concluded that the Prior Information Notice exercise confirmed that a competitive tendering process could be commenced in 2022 at the earliest, a date chosen to allow the winning bidder time to order new vessels and secure delivery prior to commencing operations.

STRATEGIC SEA SERVICES WORKING GROUP

73. To review the broader options the Minister for Infrastructure, Hon PA Gawne MHK, established a Strategic Sea Services Working Group consisting of both members of Tynwald and interested parties such as the Isle of Man Chamber of Commerce and TravelWatch Isle of Man. The Minister indicated in July 2015 that the Department had three options:

- a) Respect the current Agreement whilst preparing to start a tender process in 2022 so that a potential new operator would be in a position to commence services when the Linkspan User Agreement expires in 2026.
- b) Invite a request from IOMSPCo to end the current Linkspan User Agreement early and then go to the market via a tender exercise.
- c) Allow IOMSPCo to propose a new Agreement that offers such exceptional value to the Isle of Man that Tynwald could agree that it would be in the best interests of the Isle of Man to accept it without testing the market with a tender process.

74. The Working Group went on to consider these options, as well as others, as explained below. However, IOMSPCo did subsequently decide to submit an offer for consideration.

OPTIONS CONSIDERED BY THE STRATEGIC SEA SERVICES WORKING GROUP

75. The Strategic Sea Services Working Group secured the support of Park Partners Ltd of London to provide specialist support on strategic marine infrastructure provision and funding. Park Partners summarised with regard to options, five of which were identified as possible for consideration:

- a) Nationalisation of the IOMSPCo;
- b) Acquisition of the IOMSPCo via a company limited by guarantee;
- c) Franchising of the Isle of Man ferry services;
- d) Continue with the IOMSPCo status quo until expiry of the Linkspan User Agreement in 2026; and
- e) Renegotiation of the Linkspan User Agreement beyond 2026 as proposed by IOMSPCo.

76. The Strategic Sea Services Working Group also identified the importance of a number of these options in controlling the ports and the vessels serving them. One option considered was for Government to fund the purchase of the vessels or to have a right to purchase them in the event of a change of operator. For example the Scottish Government owns the vessels serving the Northern Isles; currently, SERCO Northlink operates the service under contract to the Scottish Government.

77. Under existing agreements IOMSPCo could sell the vessels serving the Island without any Government involvement. The level of strategic safeguarding would be much enhanced if the Isle of Man Government owned both the vessels and the ports served. It could then choose to tender the operational element of the service for shorter durations as the operator would be leasing the vessels from Government. To some extent, the operator of the ferries then becomes only a service provider.

78. The option or even obligation to purchase vessels that are owned by the operator in the event of the contract being terminated allows for short contract terms or more frequent break points as the capital investment of the operator would have the long term security required for financing a long lived capital asset.

79. After further assessment, two options were identified as justifying further and more detailed consideration. These were:

- a) Acquisition of the IOMSPCo via a company limited by guarantee; and
- b) Renegotiation of the User Agreement beyond 2026 as proposed by IOMSPCo, but with consideration being given to the potential for Government to buy and lease back the vessels.

80. Significant assessment of the option to buy all or part of IOMSPCo was undertaken, primarily using the expertise of Park Partners Ltd. It was accepted from the outset that the shareholders may not wish to sell the company and that short of nationalisation they could not be required to do so. It was also accepted that there should be minimal or no Government influence on the operational decisions of the company limited by guarantee with Government acting solely as owner and influencing strategy via its role on the board of the company.

81. Park Partners Ltd concluded that the option of owning IOMSPCo via a company limited by guarantee offered a number of advantages, offering:

- a) Long-term, stable ownership on the Isle of Man;
- b) A not for profit entity with no distributions of profit but legally separate from IOMG;
- c) The ability for Government to set policy objectives and regulate whilst allowing the company to operate independently without political interference;
- d) A private company with typical board / corporate governance and subject to commercial disciplines and motivations; and
- e) Financial independence from Government.

However, this structure would need careful consideration of:

- a) The ability to negotiate acquisition of IOMSPCo from current shareholders at a price

- that delivers value for money;
- b) The availability of Government funding;
- c) Whether the company would in practice be free from political interference despite legal independence; and
- d) Lack of competition reducing the potential for cost efficiency and innovation without appropriate management oversight.

82. From the available information Park Partners Ltd identified a likely purchase price and worked with Treasury and Cabinet Office officers to estimate the total capital investment required to not only purchase the company but to secure the required capital assets. If funding were made from either existing reserves or from bonds a return on investment would be required and that would mean that profits from the operating company would not allow a reduction in fares for a period of at least 20 years.

83. Moreover, the timing of any offer to acquire the company was agreed to be critical. With 10 years of monopoly provision remaining the current shareholders would expect a return based on both capital value and potential future earnings, which could be predicted with some confidence. If the company were to be acquired, best value would most likely be obtained when the current agreement was at or close to expiry.

84. After due consideration the Working Group determined that the costs of this approach did not deliver sufficient benefits to justify further action at this time and that other ways of safeguarding strategic control should be considered.

85. On that basis the Working Group gave detailed consideration to a proposal submitted by IOMSPCo in January 2016 for a new contract to be called the Strategic Sea Services Agreement with a view to determining whether or not it was sufficiently advantageous to put before Tynwald Court. The proposed Agreement was to run for 15 years from the end of the current Linkspan User Agreement and so would secure IOMSPCo services up to 2141 if break provisions were not activated. The Working Group sought various clarifications and took the advice of Park Partners, which can be summarised as follows.

86. The proposal has some attractive features when compared to the existing User Agreement in that it:

- a) Brings forward investment in new vessels with larger capacity without funding from Government;
- b) Introduces new fare initiatives for the public, such as more discounted fares and a frequent traveller scheme;
- c) Puts in place a revenue growth sharing scheme to share business outperformance; and
- d) Offers a financial stability requirement to provide comfort on IOMSPCo remaining a 'going concern'.

87. Despite these attractive features, there are some significant issues relating to the IOMG's desire to achieve greater strategic control over strategic sea services:

- a) IOMSPCo would be granted a very long period of exclusivity with little opportunity for Government to revise key terms of the agreement if required by, for example, a change in economic conditions;
- b) Vessel ownership would remain with IOMSPCo, restricting the strategic flexibility of Government in the event of default or insolvency;
- c) Through the new agreement adding 15 years to the life of the old agreement a significant increase in the value of IOMSPCo is given to current shareholders; and
- d) With a long exclusivity in place, it is highly likely that the current shareholders will sell IOMSPCo; the Department would have limited control over this; it is accepted that if an agreement is not put in place some of the current shareholders may sell their holdings to investors more comfortable with a short term arrangement.

88. Park Partners advised that if the Department wished to continue with the current structure for provision of strategic sea services, the IOMSPCo proposal should be renegotiated, using comparable contracts as a guide to market practice, covering *inter alia* the following areas:

- a) Length of term (comparable companies having 5-7 year contracts albeit with provisions to protect capital investments);
- b) Timing of introducing new vessels and whether these should be purchased and owned by Government instead;
- c) Stronger protection in event of contract default or insolvency;
- d) Change of ownership provisions; and
- e) Financial disclosure provisions.

89. Park Partners noted that whilst it might be prudent to consider negotiating a new agreement at a later date, for example in five years' time or closer to the expiry of the current agreement in December 2026, the Department wished to seek Tynwald approval in July 2016 for funding for the new Liverpool ferry terminal. Such an approval would clearly require IOMSPCo commitment to using the terminal for the duration of the existing User Agreement if Tynwald was to be given the confidence that any new Liverpool facility would actually be used by IOMSPCo but that IOMSPCo would most likely take the position that without a new agreement no commitment would be given to use the new Liverpool ferry terminal.

90. The Department and the Working Group therefore had to consider the best approach to ensuring Tynwald approval can be sought for the landing stage whilst putting in place the best long-term solutions for strategic sea services with appropriate strategic controls.

91. After careful consideration the general consensus, though not unanimous opinion from within the Strategic Sea Services Working Group was that the option of renegotiation of the User Agreement beyond 2026 as proposed by IOMSPCo was worthy of further consideration if issues of concern could be dealt with. These were agreed to be:

- a) The length of term and the need to incorporate break clauses subject to Tynwald approval;
- b) Control over vessel investment;
- c) Issues related to fares and services;
- d) Control over ownership and change of control;
- e) Financial stability and debt control:

- f) Financial reporting;
- g) Exit and run off plan.

92. The Department advised the IOMSPCo on 19th April 2016 over the areas of concern that the Strategic Sea Services Working Group felt required further consideration. It was and remains the view of the Department that any new agreement had to not only safeguard strategic services but had to offer a high level of transparency about such matters as company accounts and debts and appropriate break clauses.

IOMSPCo PROPOSAL

93. The offer presented to Tynwald Members on 24th May 2016 has been published by the IOMSPCo. A copy is appended for ease of reference (**Appendix 2**). It builds on the controls that already exist and deals with a number of areas of concern. The offer would certainly see a further improvement in sea services beyond those covered by the current User Agreement period. In particular it would give:

- a) Two new vessels
- b) A permanent third vessel as back-up and TT cover
- c) Fare controls, with all fares linked to Manx RPI
- d) A frequent traveller discount scheme
- e) A profit sharing agreement with the Department
- f) Break provisions
- g) Safeguards on debt and control
- h) A run-off plan
- i) The offer of funding new facilities in Liverpool

94. The provision of a backup vessel is not required by the current user agreement but has become increasingly critical as the size of ferries operating on other routes has grown considerably since 1995. Consequently there are currently no other suitable vessels operating in the Irish Sea that could operate into Douglas Harbour. Douglas Harbour could be capable of accommodating vessels of up to 140 metres in length but vessels operated by other ferry operators are now all substantially longer than this. For example, the Stena Line vessels operating from Birkenhead to Belfast are both 186 metres in length. In recent years IOMSPCo has provided a level of back up capacity in the freight vessel MV Arrow although this is not a User Agreement requirement and could be dispensed with at any time at it costs the company more than £2m per year to provide. The loss of this capacity would impact seriously in the event of problems with either the Ben-my-Chree or Manannan.

95. Overall, the Department and the Working Group concluded that the offer had sufficient merit that it be put before Tynwald with a view to allowing Tynwald to indicate whether the Department should work with IOMPSCo to develop the offer into a draft legal agreement to be submitted to Tynwald for final approval.

96. The Department has concluded that the agreement offered by IOMSPCo is of significant merit. It does however remain concerned that the offer does not go far enough in relation to either break clauses or the financial transparency of the company. Should Tynwald agree to the Department continuing negotiations with IOMSPCo, the Department would seek greater concessions on these two points.

CONCLUSIONS

97. The Isle of Man Steam Packet Company Limited has made a strong proposal which contains a range of potential benefits for the Isle of Man. The Department is aware that in general there should be either competition within a market or competition for the market. Previous experience has shown that the Isle of Man's ferry services market is best regarded as a natural monopoly, which would identify competition for the market as the best way forward. The Department's Prior Information Notice process led it to conclude that tendering for the right to operate services to and from the Isle of Man would not be viable until 2022 as IOMSPCo has exclusive use of the Department's linkspan until 2026 under the current Linkspan User Agreement.

98. The Department is however aware that a tendering process cannot be guaranteed to secure an offer as good as either the current agreement of the IOMSPCo offer. Indeed, it cannot be guaranteed to secure any offer at all.

99. IOMSPCo has been providing services to the Island since 1830 and is an established Isle of Man company providing substantial local employment. There are potential benefits in entering into a further agreement if a final contract that meets the aim of safeguarding the Island's strategic sea services and provides for appropriate transparency and suitable break clauses and like controls can be agreed. Whilst the debt incurred by the company in various sales has not impacted directly on fares or services as these are controlled under the User Agreement, it is clear that parties outside of the Isle of Man have benefitted as a result of these sales, which were indicative of the type of infrastructure ferry company sales occurring in the early part of the 21st century.

100. Whilst not directly related to the possible extension of the Sea Services Agreement the need to secure facilities in Liverpool is pressing. Without a user these facilities cannot be secured, giving significant weight to the need to put the IOMSPCo offer to Tynwald Court.

RECOMMENDATIONS FOR A NEW AGREEMENT

101. The Department recommends that Tynwald:

- a) Approves the Department negotiating a draft legal agreement to cover the development of a new Strategic Sea Services Agreement with the Isle of Man Steam Packet Company Limited, subject to a requirement that the Department brings the proposed legal agreement back to Tynwald for final approval; and
- b) requires the Department to seek further concessions from Isle of Man Steam Packet Company Ltd in relation to break clauses and the financial transparency of the company in the final Strategic Sea Services Agreement.

SECTION FOUR: OVERALL CONCLUSIONS

102. The Department has set out the proposed Strategic Aims for the future of the Island's sea services. Whilst these have yet to be endorsed by Tynwald they have been used to guide how best to proceed with two nationally significant issues, namely the potential loss of a landing stage in Liverpool and the long term safeguarding of strategic sea services. The limited future safe life of the existing Liverpool landing stage has required the Department to consider the two issues together.

103. Careful consideration has been given, and will continue to be given, to the implications of the decisions being made. A range of alternative options has been considered as part of this process. After detailed consultation and with the support and co-operation of a large number of private, public and third sector bodies, the Department has concluded that it has to act. Failing to act would mean that there were no direct sea links to the only major English city within reach of the Island and that services would have to be offered to a less than satisfactory port until at least 2026. Furthermore, there would be no back-up vessel for periods of vessel maintenance or failure and no extra capacity at times of peak demand. Having considered the views and advice received, the Department has concluded that the Island can best safeguard its strategic sea services by buying land at Princes Half-Tide Dock in Liverpool for the development of a ferry terminal and by negotiating a new agreement with the long term incumbent operator to secure long term service guarantees with appropriate controls and safeguard.

104. The Department now seeks approval to move forward on these issues with a view to securing a strategic sea service that meets both current and future requirements.

SECTION FIVE: SUMMARY OF RECOMMENDATIONS

105. The recommendations made in the preceding sections are collated here for clarity of presentation. The Department seeks the approval of the Council of Ministers to present the enclosed report to Tynwald in July 2016 and to it recommending that Tynwald

- a) endorses the eight strategic principles outlined above;
- b) agrees that these principles should form the basis of a new Strategic Sea Services Policy;
- c) requires the Department to present the new Strategic Sea Services Policy for Tynwald approval in November 2016;
- d) supports the Department spending a sum not exceeding £3.5 million for the purchase of a site at Princes Half-Tide Dock, Liverpool;
- e) endorses the Department's preferred option of seeking an open tender for a design and build contract to develop the facility but on the basis that no work should begin on developing the facility until agreement has been reached with a ferry service provider to operate from the facility;

- f) approves the Department negotiating a draft legal agreement to cover the development of a new Strategic Sea Services Agreement with the IOMSPCo, subject to a requirement that the Department brings the proposed legal agreement back to Tynwald for final approval and
- g) requires the Department to seek further concessions from IOMSPCo in relation to break clauses and the financial transparency of the company in the final Strategic Sea Services Agreement.

APPENDICES

Appendix 1 - Maps of Liverpool Landing Stage Sites

Appendix 2 - IOMPSCo offer paper

