

# Friends of Penzance Harbour

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To:  
All Cornwall Councillors

20<sup>th</sup> March 2011

Dear Councillor,

## **Decision to increase IoS Link loan to £15m**

At last Wednesday's Cabinet meeting it was agreed to recommend to the Full Council that Cornwall Council increase its planned prudential borrowing for the Isles of Scilly Link project from £10m to £15m, and the meeting was told that due to a shortage of time the final decision will be taken through the so-called "urgency procedure". This means that the decision will be taken by the Chief Executive and NOT the Full Council. While the procedure requires the Chief Executive to consult with the Chair and Vice-Chair of the Council and two senior officers (the Head of Finance and the Head of Legal & Democratic Services) it does NOT provide for scrutiny by any other elected Members, whether as a committee or individually.

The decision to increase the Council's borrowing for this project is a serious one that carries substantial financial risk for the Council and council-taxpayers. For this reason alone it should be subject to a decision at Full Council. But the move should also require Full Council approval because it fundamentally alters the nature of the Isles of Scilly Link project and therefore the rationale for previously agreed funding as well. The decision has to be taken by 31<sup>st</sup> March. There is a full Council meeting already scheduled for 29<sup>th</sup> March, so it would in fact be perfectly possible for the proposal to be submitted to the Full Council.

The financial risk is considerable. If the annual loan repayments are kept constant over the period of the loan and at a level to match the charter fee, it will take almost twice as long to repay £15m of borrowing as it would to repay £10m. The amount of interest on the larger loan will be almost three times as much. **The cost of the extra £5m once interest payments have been taken into account is actually more than £10m.** The total amount to be repaid if the loan is £15m will be around £23m. (These figures have been calculated using interest rates on the Public Works Loan Board web site.)

This dramatically alters the risk for the Council, for two reasons: 1) the loan is larger so the risk of a default and the consequences of a default at any point are greater; and 2) it extends the repayment period beyond the legal maximum period of the first contract with the vessel operator (remember the loan is to be repaid out of the charter fee from the vessel operator) and into a period where there is considerable uncertainty about the likely size of the charter fee. The implications of this are clear: if the vessel operator defaults or revenues on the service turn out to be lower than estimated by the Council, and if the vessel operator can only pay a smaller charter fee, then the shortfall will have to be made good from other Council funds. The Public Works Loan Board rules are clear: "**Loans are automatically secured by statute on the revenues of the authority**".

The above situation is aggravated further by the Council's very optimistic estimates of passenger numbers for the new ship. While we don't have the full details we do know that they have assumed 75 passengers per sailing in the winter months; when a winter service last operated it rarely attracted as many as a dozen passengers. If the contracts are based on this assumption about passenger numbers then it's highly likely that revenues will be lower than planned and the ability of the operator to pay the charter fee will be impaired, with potentially catastrophic implications for the repayment of the Council loan.

Having a larger loan not only dramatically increases the risk for the Council, it also totally undermines one of the main objectives of the project, which is to create a vessel replacement fund that would allow for the purchase of a new Council-owned ship in 25 years' time. The Cabinet paper optimistically suggests that it might be possible to end up with a small fund but given the risks described above it is much more likely that there will be no fund at all, creating a situation where the Council will again have to seek public funds if it wants a publicly-owned ferry.

Fortunately the same Cabinet paper provides details of the current private-sector operator's plans for maintaining the current link service, involving two privately-financed second-hand vessels. When the Council's scheme was first conceived it was on the basis that there had been a "market-failure", that the private sector operator was unable to sustain the link, and that public funds were needed. This may have been the case 10 years ago, but as the Cabinet papers suggest, it is thankfully NOT the situation now. The Isles of Scilly Steamship Company thrives, has recently taken control of the local Dry Dock, purchased a second specialised freight ship last year, and has a healthy bank balance. Our belief is that they would prefer to provide the vessels themselves leaving the Council to concentrate on improving facilities in the harbours.

We are writing now to inform you about what is planned and to ask that you do everything within your powers to ensure that the proposal to increase the Council's borrowing is put to the next Full Council meeting on the 29<sup>th</sup> March, so that it is discussed and voted on by all Members. We are already seeing what happens to frontline services when financial times are hard: we look to you to ensure that Cornwall Council does not acquire an expensive ship which it is quite unnecessary for it to own and which becomes a massive burden on Cornwall council-taxpayers.

Yours sincerely,

John Maggs  
Coordinator & Spokesman  
Friends of Penzance Harbour

c/o 17 Jack Lane, Newlyn  
Penzance, Cornwall TR18 5HZ  
Tel 01736 332741