

Delivering Better Ferry Services



A new report from Bob Seely MP

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Introduction



The Island depends on three private ferry operators (Wightlink, Red Funnel and Hovertravel) for the supply of goods, food and fuel; transport for critical and medical workers; emergency ambulance transfers, and medical supplies.

The cross-Solent market has an established a model of private equity style ownership of the major operators which has seen several generations of acquisitions and exits. The operators make significant profits from Isle of Wight services. The operators use these profits to pay interest on debts artificially loaded onto them by their lenders and shareholders. High levels of gearing and debt weigh down the ferry operators; limit expansion of services; and drive up fares.

In the past 20 years, car ferry timetables to and from the Island have broadly reduced instead of expanded. The pace of investment in services has been slow compared to the broader maritime sector: Wightlink's car ferries are 18 years old on

average and Red Funnel's car ferries are 28 years old on average. The ferry operators use surge pricing schemes which penalise Islanders for making essential trips at peak times. Late-night fast passenger travel is limited and ferries do not always connect with onward rail services. Some passenger services are slower than they were a decade ago. The two major ferry operators are subject to repeated mechanical and 'technical' issues. The operators regularly cite staff shortages as a reason for cancellations.

The ferry firms have no legal obligations to meet set timetables or standards of service above minimum levels of safety. The Island's connectivity is currently entirely at the discretion of the firms, who are answerable only to their shareholders.

We have had the status quo now for 40 years. Since becoming your MP just seven years ago, I have battled to get improvements. However, for reasons I explain in the document, there may now be a window of opportunity for a new initiative to get a better deal.

A handwritten signature in black ink that reads "Bob Seely". The signature is written over a light grey map of the Isle of Wight.

Dr Robert Seely MBE MP

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My plan for Isle of Wight ferries

Better services:

- Permanent improvements in late and early passenger services so that the ferry operators do more to fulfil their social responsibilities, especially for those Islanders who work flexible hours or nights.
- Regular services, every hour or half hour, not the unacceptable 'slipped' service that currently runs on Red Funnel's Red Jet.
- A duty to ensure best connectivity with national rail services.
- Stronger sanctions for failures to deliver agreed standards of service, or failures to run services which are **not** caused by poor weather.
- An improved reimbursement system for cancelled sailings, including compensation for the costs of mainland accommodation where necessary.
- An accurate understanding of investment levels in recent decades, compared to other ferry services elsewhere.
- A better deal for young people.

Better pricing and ticketing:

- Easier multi-link ticketing options for poorer Islanders.
- A greater discount for journeys starting on the Island.
- Electronic through ticketing on **all** combined ferry/rail services.
- The ability to book places for passengers (such as the elderly or those going for medical treatment) at busy times.

More transparency:

- Greater transparency over corporate structures, finance and price increases.
- Thought given to the Isle of Wight Council taking a seat on the boards of the major ferry firms, or taking a minority or even majority stake in either of the firms.
- Consideration of nationalisation (which no government has agreed).
- Independent assessment of punctuality and reliability, so that operators do not arbitrarily change their methodology for reporting their performance.



How will the Island achieve these aims?

There are a series of options. These include:

- An independent regulator (Solent Ferries Regulator) to oversee fair competition, working with the Island community and the ferry operators. The independent regulator would aim to work much of the time through voluntary agreement between the ferries and the Council but would have wide powers to ensure free and fair competition.
- Department for Transport regulation of elements of the ferry services, such as timetables. This would provide an element of enforced public service obligation by mandating early and late sailings as well as ensuring better connectivity with public transport.
- Central government funding for healthcare-related visits to the mainland, enabling the money that the firms currently put towards subsidising health journeys to be spent on lower fares, for example.
- Voluntary regulation whereby the ferry firms agree service levels with the Isle of Wight Council or Department for Transport through a formal process.

In addition, I would like to see:

- Support for new ferry routes, especially those run by operators committing to a Community Interest Company model.
- Consideration of options for a small levy - £1 or £2 - on car journeys starting on the mainland to raise additional revenue for the Island, and for what it could be used.

Why now?

First, Wightlink's car ferries are 18 years old on average and Red Funnel's car ferries are 28 years old on average. To keep up with technology and reduce carbon emissions, both major cross-Solent operators require significant capital investment to renew their vessels and shoreside infrastructure.

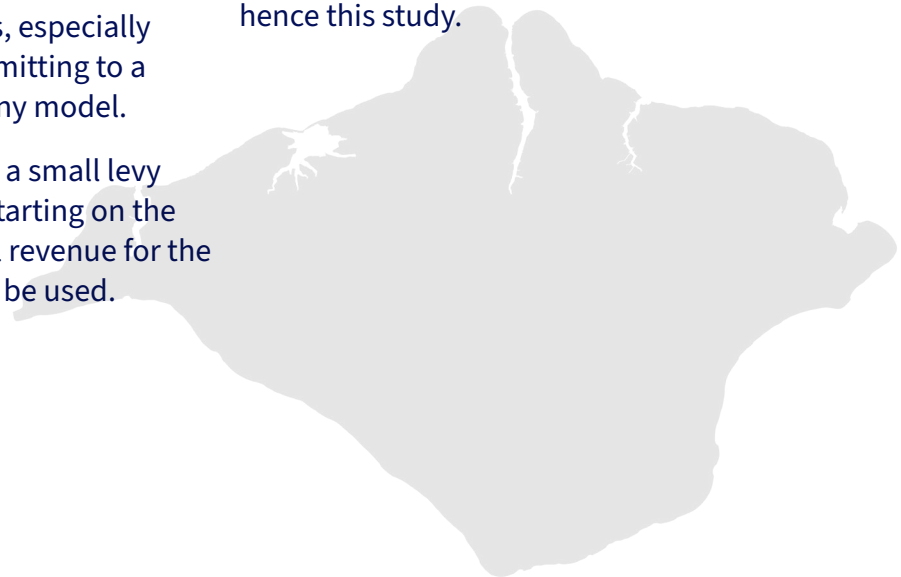
If this is supported by any government funding, we should argue for something in return.

Second, as part of the Islands Forum initiative, the Government is conducting work looking into connectivity between the mainland and UK islands. The Islands Forum was set up after Scottish council leaders and I lobbied the Government to set up such a forum.

Third, during the Covid-19 pandemic, the ferry firms took a limited amount of public money in recognition that they had an obligation to provide lifeline services.

Fourth, Red Funnel will have to renegotiate its bank loans this summer. They will very likely achieve a renegotiation of debt although it is likely to come at the risk of higher prices and worse services.

For these reasons, there is now a window to make a case that we need a change in the relationship between the firms and the Island: hence this study.



What have I done so far?

I commute to Parliament from the Island most weeks and hear from Islanders regularly about ferry services.

No MP or Council has the power to change the system overnight and no Government of any party has been willing to intervene in the cross-Solent market since the privatisation of Sealink in 1984.

Therefore, to maximise our chances of improving the ferry services and ensure that they work for the Island, we need to have a common purpose and agenda to achieve change. We need to persuade the ferry firms that change is in their interests and persuade the Government that ferry services should be addressed as part of the national Islands Forum agenda.

I have argued for a number of regulatory solutions, including Public Service Obligations for cross-Solent routes and minimum service levels established in law. I have raised the persistent issues with the Island's connectivity with three Secretaries of State for Transport and three separate Maritime Ministers. I have written to and met with all the local ferry

companies. I have called for regulation both in public and in meetings with government ministers, and I have submitted formal evidence to the Government including the Union Connectivity Review.

I worked with the Council and ferry operators to encourage the ferries to introduce the Discounted Fares Scheme to support Islanders receiving housing benefit or council tax support. As a result of pressure from myself and others (thank you to all who signed the petition) Wightlink have re-introduced some later FastCat services. I also pressed Wightlink to improve its timetable to meet rail connections at Lymington. I've got assurances from Red Funnel that they are hiring more people to prevent staff shortages affecting services. Repairs to vessels will be finished this month (March) for the start of the summer timetable.

I continue to meet with and press the ferry firms.

I am now calling for feedback from Islanders on further options. Once I have received Islanders' feedback, I will ask the Isle of Wight Council to agree a statement of intent on pursuing regulation of the cross-Solent ferry market.



Background

The Island's connectivity

The Isle of Wight is the most populous offshore Island in England, with a population of c.140,000. The Island has c. 2.4m visitors annually.¹ There are c. 8.66m sea passenger journeys between the Island and the mainland UK and c.1.7m car journeys each year.²

The Island's economy relies on passenger travel between the mainland and the Island. Visitors have a direct spend of over £300m.³ Approximately 6,360 people commute between the Island and the mainland.⁴

Public healthcare for Islanders is split between care on the Island and some specialisations on the mainland. Owing to the time and cost of travel to the mainland, a local hospital service operates on the Island. It does so with approximately half the economies of scale typically required to sustain a typical district general hospital.⁵

A number of essential healthcare services can only be accessed on the mainland, at the discretion of the three private ferry operators. Some services such as oncology require dozens of consecutive daily journeys.⁶

Islanders made approximately 45,000 healthcare journeys to the mainland in 2017/18.

University education on the Island is limited compared to the mainland. A number of children and young people commute to secondary school or sixth form college on the mainland.

The cross-Solent ferry market

The cross-Solent ferry market is purely commercial and open to any private company. It is up to private operators and their shareholders to decide what level of connectivity to provide. Apart from meeting safety standards, the ferry operators are free to choose how to operate, including whether or not to provide sailings, what time these sailings leave, how much to charge, the quality of services and amenities (such as the quality and age of ships and the provision of customer services) and whether or not to provide any information to customers that is not already required by law.

Whilst the market is open to any company to enter, the Island's car ferry ports are in use and privately owned, creating a significant barrier to any new operator.⁷ The current market has

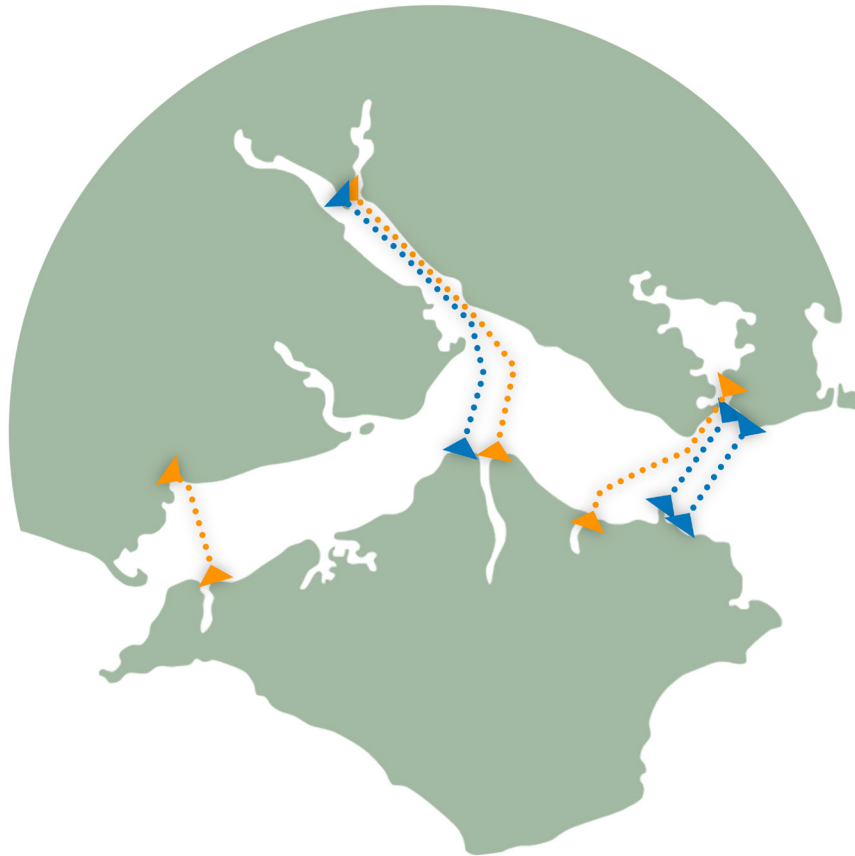
Operator	Routes
Wightlink	Yarmouth-Lymington (Vehicle) Ryde Pier Head-Portsmouth Harbour (Passenger) Fishbourne-Portsmouth (Vehicle)
Red Funnel	East Cowes-Southampton (Vehicle) West Cowes-Southampton (Passenger)
Hovertravel	Ryde-Southsea (Passenger)

three ferry operators and six routes.

On the Ryde route, Wightlink and Hovertravel compete directly for foot passengers. However, Wightlink dominates rail-connection travel on the Island, as the sole operator linking Ryde Pier Head Station to the onward national rail network at Portsmouth Harbour, although there is a hovercraft-bus connection from Ryde Esplanade to Portsmouth and Southsea. At the time of the Office for Fair Trading's (OFT) 2009 competition report, it was suggested that around 40 percent of FastCat passengers used rail services.⁸

Endnotes

- 1 <https://www.iow.gov.uk/azservices/documents/1190-TITF-Report-FINAL.PDF>, p.5
- 2 <https://www.iow.gov.uk/azservices/documents/1190-TITF-Report-FINAL.PDF>, p.14
- 3 <https://www.iow.gov.uk/azservices/documents/1433-Isle-of-Wight-Economic-ProfileFinalFebruary2020.pdf>, p.4
- 4 <https://www.iow.gov.uk/azservices/documents/1433-Isle-of-Wight-Economic-ProfileFinalFebruary2020.pdf>, p.5
- 5 Transforming Acute Services for the Isle of Wight, Programme Report to the Government Body, Isle of Wight Clinical Commissioning Group, 1 February 2018, p.4
- 6 <https://www.iow.gov.uk/Meetings/committees/Policy%20Scrutiny%20for%20Adult%20SC/15-10-18/Paper%20D%20-%20Cancer%20Services%20-%20Report%20inc%20Appendix%201-3.pdf>
- 7 https://webarchive.nationalarchives.gov.uk/ukgwa/20140402181519/https://oft.gov.uk/shared_of/consultations/oft1135.pdf, p.34
- 8 https://webarchive.nationalarchives.gov.uk/ukgwa/20140402181519/https://oft.gov.uk/shared_of/consultations/oft1135.pdf, p.26



The case for change

Public connectivity to the Island

When an Island is physically isolated from the national road and rail network, the Government typically guarantees or indeed directly provides transportation to ensure social and economic continuity across the nation. The Isle of Wight is in a uniquely disadvantageous position in that freedom of movement and the Island's sole access to essential goods and services is controlled by an unregulated market where the cost and availability of transport is at the discretion of a limited number of private ferry operators.

Physical isolation and poor quality services come at a significant cost to the Island; in 2021 it was reported that if the Island had the average productivity of its wider region, its annual output would be £800m higher each year.¹

Given a consistent approach to regulation, one would expect a Solent transport regulator such as those regulators which oversee other privatised public services where there is limited competition (Ofwat, Ofcom, Ofgem, etc.), or otherwise cross-Solent transport would be integrated into the role of the Office for Road and Rail.

The Isle of Wight's connectivity is not only a unique situation within the UK but also atypical in EU countries.

Ferry services in Denmark are either directly operated by local authorities or procured through Public Sector Contracts or Public Service Obligation contracts. The Government regulates the price and frequency of the services. Ferry services in Norway are likewise procured by either local or national government and fall under the remit of the Norwegian Public Roads Administration. Ferry

services in Greece are privately operated and 23 percent are subsidised.² Spain issues €95m to the maritime sector to promote "territorial continuity and social unity" between the Spanish mainland and outlying territories. As a condition of these subsidies, the Spanish government regulates timetables and service standards.³

The longstanding position of UK governments to date is that: "there is no evidence of market failure to require regulatory intervention."⁴ In 2009, under New Labour, the Office of Fair Trading conducted an investigation into the cross-Solent ferry market but declined to call for further investigation or intervention. This followed a campaign by the then Member of Parliament Andrew Turner MP.

The effectiveness of the current cross-Solent ferry market

The cross-Solent market was fully privatised with the intention of providing better connectivity and services than would otherwise be provided by the state or a regulated market. The past 30 years of data suggests that given limited opportunities for competition, the current market has a mixed record.

The primary car and passenger ferry operators, Wightlink and Red Funnel, are owned by private equity investors. Hovertravel accounts for a smaller market share and is over 99 percent owned by the Bland Group.

State operator Sealink (later Wightlink) was sold to Sea Containers in 1984. Wightlink management and CinVen (private equity) purchased Wightlink from Sea Containers in 1994 using acquisition finance from lenders. HBOS and Red Funnel management similarly acquired the business from JP Morgan in 2004 for £100m with only £15m of equity.⁵

Key point: under the leveraged buyout model outlined above, owners purchase the firms with borrowed money. The ferry firms are subsequently restructured to pay interest on this debt, and we, the users, pay for the owners' purchase of the firms.

For tax purposes, infrastructure company owners can deduct interest paid on the loans used to purchase a company from that company's operating profits. Wightlink and Red Funnel's holding companies typically declare no gross profit or a loss. Subsequently the firms are not required to pay corporation tax in the UK, even if substantial operating profits have been moved offshore in the form of interest payments.

Following acquisition of the firms, shareholders have generated significant returns by increasing the hypothetical value of the operators and selling them, passing on the acquisition debt to new bidders. New bidders continue to use the firms to service the debt attached as well as making any dividend or interest payments to themselves where possible, before selling the firms at a yet higher value than before.

A purchase and exit process has repeated for both Wightlink and Red Funnel over three to four generations of private equity ownership, with steadily increasing valuations of both companies.

Wightlink

Date	Change in ownership	Estimated Value
Pre 1984	British Rail (Sealink)	Information unavailable
1984	Sea Containers Limited	£66.0m ⁶
1994	Management Buy-In (CinVen and RBS)	£107.5m ⁷
2001	Management Buy-In (RBS)	£180.0m ⁸
2005	Macquarie European Infrastructure Fund	£230m ⁹
2015	Balfour Beatty Infrastructure Partners LLP	Information unavailable
2016	Basalt Infrastructure Partners LLP	Information unavailable
2019	Fiera Infrastructure (50%) and Basalt Infrastructure Partners	Information unavailable

Red Funnel

Date	Change in ownership	Estimated Value
1989	Associated British Port Holdings plc	Information unavailable
2001	JP Morgan Partners Incorporated	£71m ¹⁰
2004	Management Buy-In (HBOS)	£100m ¹¹
2007	Infracapital (Prudential)	£200m ¹²
2017	Consortium of UK and Canadian pension schemes	£369.6m

Tables above list details of publicly-reported transactions, sometimes based on sources close to the deal. Recent acquisition prices have not been disclosed by the investors. It is not in the interests of the Island for acquisition prices to be effectively secret.

In 2015, the Wightlink management team sold the business to Macquarie European Infrastructure Fund at an estimated value of £230m, making over £30m for Wightlink's then Chief Executive and over £9m for its finance director.¹³ In 2007, Red Funnel was acquired by Prudential for more than £200m, making a £32.5m profit for the management team.¹⁴

Whilst legal, these arrangements are arguably bad for Islanders and arguably bad for the UK Government given the loss of tax receipts.

Key point: Wightlink and Red Funnel pay interest on large loans to shareholders or external lenders. This adds to their costs. The firms pay little to no corporation tax.

Both the major ferry firms required emergency funding to continue running services during the Covid-19 pandemic.

Wightlink received £6.4 million of government grants from the furlough scheme and the lifeline grant in the period ending 31 March 2021. Yet, in the 2020 reporting year, Wightlink parent companies continued to report large interest payments out of the group structure on loans to shareholders and external lenders. I find this ethically concerning.

Wightlink's Luxembourg parent company Arca Luxembourg owed £1,667,989 in interest payments to Basalt Infrastructure Partners, a shareholder of Wightlink. A further parent company, EagleCrest Marine TopCo, paid £2,597,434 to companies linked another Wightlink shareholder, Fiera Infrastructure (EagleCrest Portfolio Holdings LP, Eaglecrest Infrastructure Canada LP, and EagleCrest Marine LP). At the end of 2020, Wightlink holding companies owed a further £883,051.48 of accrued interest to a further lender, Argyle Luxco

2, whose ultimate parent as of 2023 was the State Administration of Foreign Exchange of the People's Republic of China.

It is unclear if these interest payments were returned to Wightlink during the pandemic.

Wightlink's CEO has argued that its financing costs result from financing of new ships and maintenance of infrastructure: "financing costs (our mortgage) are paid by our parent company and must be included in our costs as we own considerable assets we need to maintain and replace. [...] We also own expensive port assets such as linkspans and terminals which must be maintained and refurbished. Therefore, our financing costs have to be considered. Taking this into account, our audited group accounts show we have made losses in recent years which is why no corporation tax has been due."¹⁵

This is a false analogy. Both Wightlink and Red Funnel state their operating profits *after* accounting for the depreciation of fixed assets, such as ships – much of the expense of new infrastructure is already stated in the operators' costs, before declaring any profit on operations. In the year ending March 2021 – the year in which Wightlink received Government funding in order to provide services – Wightlink added almost £9 million to its costs by writing down tangible assets. In 2018, Wightlink completed a £45 million investment in the Fishbourne route, including Victoria of Wight. This is the equivalent of 5 years of depreciation at £9 million per year. Wightlink's previous major investment in the route was over 17 years prior with the build of St Clare. Both major ferry firms make significant profits after accounting for the costs of new infrastructure and maintenance.

Key point: 'financing costs' are systematically structured to pay interest out of the group structure and are mostly unrelated to the costs of running the service.

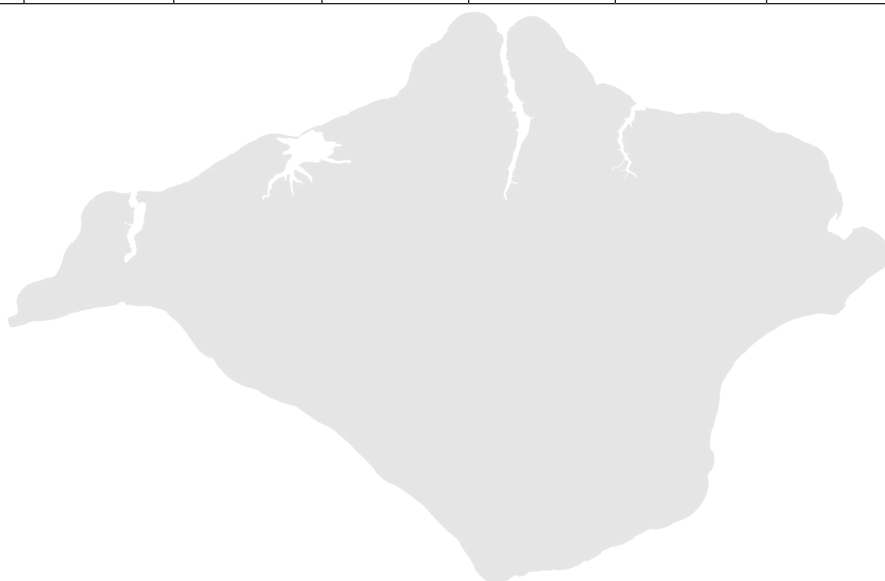
Operator performance

Wightlink (£'000)

Year ended	1990	1995	2000	2004	2010	2015	2019
Turnover	£28,035	£32,529	£41,994	£50,606	£53,728	£59,608	£68,944
Operating costs	£20,158	£26,221	£28,557	£35,858	£43,121	£50,898	£50,930
Profit on operations	£7,877	£6,308	£13,437	£14,713	£10,607	£8,710	£17,014
Tangible assets	£57,240	£53,335	£55,811	£60,073	£70,159	£67,005	£90,732
Turnover/tangible assets	0.49	0.61	0.75	0.84	0.77	0.89	0.76
Operating margin	28%	19%	32%	29%	20%	15%	25%

Red Funnel (£'000)

Year ended	1990	1995	2000	2004	2010	2015	2019
Turnover	£ 12,735	£ 15,842	£ 21,643	£ 25,726	£ 34,705	£ 48,373	£ 56,106
Operating costs	£ 9,501	£ 11,304	£ 15,059	£ 16,477	£ 22,120	£ 27,641	£ 35,740
Profit on operations	£ 1,951	£ 3,253	£ 4,528	£ 5,247	£ 6,001	£ 11,972	£ 13,287
Tangible assets	£ 9,403	£ 34,455	£ 35,949	£ 38,569	£ 30,806	£ 28,271	£ 51,729
Turnover/tangible assets	1.35	0.46	0.60	0.67	1.13	1.71	1.08
Operating margin	15%	21%	21%	20%	17%	25%	24%



From 1990 to 2019, UK real GDP increased by a multiplier of around 2.5.¹⁶ Hence, in the period assessed, there was significant potential for expansion of the cross-Solent market.

However, rather than expanding the market in the 34 years from 1990 to 2024, Wightlink reduced the vehicle capacity of its fleet by 41 cars, reduced fast passenger capacity from 805 to 520 passengers and reduced fast passenger speed. In the 20 years from 2004 to 2024, for a given Monday in February, Wightlink reduced the number of daily sailings from Fishbourne from 36 sailings per day to 18 sailings per day; reduced sailings from Yarmouth from 24 sailings per day to 16 sailings per day; and reduced passenger sailings from Ryde from 32 sailings per day to 18 sailings per day.¹⁷

From 1990 to 2019, Wightlink has consistently made a profit of around 20 to 30 percent of turnover each year; and increased profit on operations from c.£8m to c.£17m per year.

Between 1995 and 2019, following the purchase of its current vehicle ferry fleet, Red Funnel expanded fast passenger capacity from 343 to 827 passengers but retained broadly the same generation of vehicle ferries. In May 2019, Red Funnel added a £10m freight ferry,

but that does not add car capacity. It only effectively adds capacity at peak summer and festival times. In 1998, Red Funnel ran 13 car ferry sailings per day from East Cowes, compared to 14 sailings from East Cowes 26 years later, using the same ships. The number of unrestricted sailings has stayed the same.

In 1998, Red Funnel ran 30 sailings from West Cowes, compared to 22 sailings from West Cowes in 2024.¹⁸ That has now been reduced to 21, so it is now impossible to get a passenger ferry back from Southampton after an evening in the city.

In 1998, the crossing was 22 minutes. In 2024, it is now 28 minutes, to reduce fuel consumption and wear on engines. Red Funnel argue that this is to improve reliability. There is no evidence of this. However, it is also being done to reduce costs, so again Islanders support the ferries' inflated prices and their need to pay back debt.

From 2000 to 2019 Red Funnel's profit on operations increased from c.£2m to c.£13 million per year.

Service Capacity - Fast Passenger Ferries

Service	2012	2015	Percentage change
Red Jet	4,084,851	4,185,554	2.47%
Fastcat	5,164,300	4,315,528	-16.44%

Service Capacity - Vehicle Ferries - Car Equivalent Units

Service	2012	2015	Percentage change
East Cowes-Southampton	2,650,176	2,573,136	-2.91%
Fishbourne-Portsmouth	9,609,765	8,349,561	-13.11%
Lymington-Yarmouth	c.5,400,000	c.3,400,000	c.-37.00%

Turnover (£'000)

Operator	2012	2015	Percentage change
Red Funnel	£39,326	£48,373	+23.01%
Wightlink	£59,436	£59,608	+0.29%

Ferry companies provided limited data for the years 2012 to 2015 as part of the Island Transport Infrastructure Task Force report on cross-Solent ferry services.

As above, between 2012 and 2015, Wightlink reduced the carrying capacity of regular services from Fishbourne to Portsmouth by 13 percent, reduced carrying capacity between Yarmouth and Lymington by 37 percent and reduced Fastcat capacity by 16 percent, all whilst retaining the same revenue. Red Funnel kept the volume of services provided between 2012 and 2015 broadly the same, but increased company revenue by 23 percent.

Key point: the current market has largely permitted the ferry operators to increase returns to shareholders whilst reducing the Island's connectivity.

Reliability and compensation

In January and February 2024, Wightlink had an overall reliability of c. 98.9 percent and a punctuality of c. 96.5 percent.¹⁹ When the Office of Fair Trading's report into cross-Solent services came out in 2009, Red Funnel committed to publishing reliability and punctuality statistics on their website. They no longer do so. In May 2023, the company shared that its reliability was around 97 percent.²⁰

Despite these self-reported statistics, Island user groups report regular mechanical failures and cancellations due to staff shortages. Ageing ships contribute to this perception. An independently collated list of disruption and cancellations recorded over the course of 2017 can be found on the Solent Freedom Tunnel website.²¹ The list recorded disruption to cross-Solent services on around 50 percent of days in 2017.

In addition, Red Funnel arbitrarily change how they judge reliability and punctuality. It is clear that these statistics should now be measured independently.

Owing to the lifeline nature of the service, the effect of cancellations can be severe. The suspension of Wightlink's late-night car ferries on 24 February 2024, for example, left passengers unable to travel to the Island until the next morning.²²

Key point: when ferry services fail, there is limited recourse to the ferry firms themselves. With limited competition in the market, I am concerned that the ferry firms are not sufficiently incentivised to invest in providing regular, reliable services.

Fares

The OFT's 2009 report commented: "Fare comparisons are extremely difficult, with a large number of factors affecting the cost of a crossing including length, the type of water and the frequency of the service." The report used a 2004 study of car fares in Europe, reporting average Red Funnel car fares of c.£32.00 and average car fares between Portsmouth and Fishbourne of £45.30 per single sailing.²³ Adjusted for inflation these fares would be the equivalent of c.£55 and c.£78 today. The 2004 study did not measure fast passenger services or services from Lymington to Yarmouth.

The 2009 OFT report concluded, "we have considered the price of Wightlink and Red Funnel car fares compared to several European



ferry routes and concluded that Wightlink and Red Funnel's pricing is not obviously out of step with other services."²⁴ Given that summer car returns can easily hit £250, it is difficult to agree.

A 2015 TRAN committee paper on ferries in the EU reported that there were few desk-based studies on the average price per kilometre of ferry services in the EU. A study of 50 routes, assuming four persons travelling in a car in an off season, reported minimum prices of €1.73/km and maximum prices of €4.32/km, with an average of €2.74/km.

In 2024, Wightlink offer fixed multi-link tickets at £35.50 per single sailing.²⁵ Red Funnel do not offer fixed tickets but a preliminary search of prices in March 2024 indicated entry price fares of £29.50. However, both major operators have introduced yield management pricing (aka surge pricing) whereby sailings with high demand may see prices in excess of £150 per single sailing.

At no point do the operators say how many of each type of fare are available, and Islanders suspect that they are not available on all crossings. There are understood to be multiple bands which are manipulated to obtain higher prices overall. The appearance of a low entry

price is misleading because few exist and fares are often only available in the more expensive bands.

Wightlink's entry level 'multi-link' fare is only available to those who purchase over £350 of multi-link tickets. These more affordable fares may therefore be inaccessible to those on lower incomes.

If Red Funnel wish to provide evidence that the £29.50 fare is available on all crossings in reasonable numbers, fair enough. If not, Red Funnel are misleading passengers about pricing.

With publicly available data alone, it is ultimately impossible to make a direct comparison of fares over the past 20 years of private equity ownership; or indeed compare the prices per kilometre of Isle of Wight ferries with equivalent services in Europe.

Whilst Wightlink and Red Funnel may argue that specific entry price fares have increased in line with inflation, the use of yield management pricing may have pushed up the average fare per passenger far in excess of inflation.

Investment in ferry services

Globally, the passenger and car ferry sector has seen significant investment in new ferries, with

electrification and automation on the horizon. Norway began operating zero-emission ferry services in 2015 and now has 80 electric commuter ferries in operation²⁶ The first electric vehicle ferry was delivered in 2014 and began commercial operations in 2015 across the 5.7km Lavik-Oppedal route.²⁷ The EU-funded TrAM project began development of a fast passenger ferry in 2018 and delivered the MS Medstraum electric fast passenger ferry in 2022.

In 2022, Norway's Asko Maritime began trialling two electric, autonomous roll-on, roll-off ferries.²⁸ In 2023, Norled, one of Norway's largest ferry operators, signed a letter of intent to fast-track development of its own remote and autonomous ferry projects. In late 2023, the Norwegian Public Roads Administration signed a contract for the operation of four autonomous ferry vessels between Lavik and Oppedal from 2026 to 2034.²⁹

Whilst Wightlink have undertaken some degree of electrification (Victoria of Wight), Wightlink's car ferries are c.18 years old on average and Red Funnel's car ferries are c.28 years old on average. Wightlink's fast passenger ferries are 15 years old and Red Funnel's fast passenger ferries are 11 years old on average.

Neither company has shoreside power to develop fully electric vessels.

Endnotes

- 1 Draft Strategic Outline Business Case for RYR Investment in the Isle of Wight, Submission to DfT Restoring your Railways Fund, 2021
- 2 <https://assets.gov.uk/7311/eba9195a30b94df09b895228a2bfdba8.pdf>, pp. 35-39
- 3 https://web.maritimeconsulting.com.es/wp-content/uploads/2017/07/ShippaxInfo_July2017_MainArticle.pdf, p.15
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Options for regulation

Any government investment in the route should prompt a review of the alternatives to the current unregulated market. These include:

- An independent Solent Ferries Regulator (SFR).
- Department for Transport oversight.
- Price caps on health journeys.
- Voluntary regulation.

1. A Solent Ferries Regulator (SFR)

To maintain the principle of regulatory independence, a cross-Solent ferry regulator would be established as a new body independent from the Government. The regulator would be empowered by new primary legislation in the form of a new Bill of Parliament.

For a Bill to be presented to Parliament by the Island's MP, it would have to be non-specific to the Island. Therefore, the Bill would have to be applicable to all UK ferries over a certain distance.

The SFR could be funded by the Government or the ferry companies themselves. Economic regulation may be accompanied by state subsidies for ferry services.

The Bill may give the regulator, working in conjunction with the ferry firms, the Island and Government, powers over:

- Timetabling, especially setting services through anti-social hours and ensuring that services are regular (so Red Funnel's current slipped timetable would not be acceptable). Wightlink would be mandated to run later services on the Lymington to Yarmouth route or the Ryde Pier Head to Portsmouth route.
- Usage, such as mandating the use of electronic through ticketing, allowing passengers to book seats at busy times (Christmas and Southampton Football Club home games, for example), or forcing additional sailings at busy times.
- Debt levels, to prevent owners from loading debt onto the ferry firms.



- Ownership, and blocking new buyers if they are thought to be unsuitable, so that in future, entities using a financed buyout model to purchase the firms could be blocked.
- Levels of central government subsidy for healthcare-related travel to the mainland.
- Certain other emergency provisions: for example, mandating that certain victims of crime, such as sexual assault, can remain in their vehicles during crossings.
- Compensation for cancelled services, especially at night and overnight.

The regulator would have a number of options for regulation and enforcement, ranging from voluntary codes of practice, to enforced self-regulation by operators, to the implementation of a licencing regime.¹ A licencing regime would permit set guidance and conditions of service. Private ferry operators would choose whether or not to enter the regulated market. In the event that operators leave the market, the Government would likely take on the role of the operator of last resort.

The regulator would be empowered to enforce the operator licensing regime with a variety of actions such as fines or prosecution.²

2. Department for Transport regulation

Limited Department for Transport regulation of elements of the ferry services, such as timetables. This would provide an element of enforced public service obligation by mandating early and late sailings and might also ensure better connectivity with public transport.

3. Price caps on healthcare-related travel

The Isles of Scilly has formal funding arrangements for NHS patient travel to the mainland UK. These are specified by the *National Health Service (Travel Expenses and Remission of Charges) Regulations 2003*, which cap relevant NHS travel expenses at a maximum of £5.

As set out in the Isle of Wight’s representation to the Union Connectivity Review, “Isle of Wight residents are uniquely disadvantaged in having to meet the fluctuating costs [of healthcare] journeys.”

A healthcare subsidy could be provided from central government, the budget of the Isle of Wight Council or from the budget of a combined mayoral authority consisting of Isle of Wight and mainland UK local authorities.

4. Voluntary regulation

In the absence of a licensing regime or PSO, the local transport authority (the Isle of Wight Council) is entitled to pursue voluntary regulation with ferry operators. Voluntary public service obligations could be agreed through the existing Transport Infrastructure Board.

Other options

1. Public Service Obligation tender

One option would be the competitive procurement of a Public Service Obligation (PSO) type agreement for certain cross-Solent ferry routes. This approach would see the Department for Transport administer a tender process whereby operators would bid to provide services to a centrally-set specification. This specification may again include certain timetables or standards of service including the age of ships and the cost of services.

A competitively procured Public Service Obligation regime such as that employed by the Scottish Government is unlikely to be feasible for Isle of Wight ferries, owing to the costs and administration required to competitively procure multiple ferry services. Treasury advice suggests that a competitive PSO would likely only be approved if the route were close to collapse.

2. Enhanced Partnership

Some UK bus services utilise a statutory 'Enhanced Partnership' whereby local transport authorities set objectives for bus operators, including timetables. New Department for Transport funding may be included in an Enhanced Partnership in order to facilitate standards of service.³ Bus operators may also be required to provide Open Data on timetables and fares. The Government could consider a similar approach to allow the Isle of Wight Council to establish partnerships with the ferry operators.

3. Support for new ferry routes

Support for new ferry routes, especially those run by operators committing to a Community Interest Company model.

4. Visitor Levy

A small levy - £1 or £2 - on car journeys starting on the mainland to raise additional revenue for the Island.

5. Company officers

A formal process to appoint more directors and non-executive directors to represent the Island on the boards of the ferry firms. This would give the Island additional influence over the firms.

Recommendations and request for feedback

I am calling for feedback on the above options and asking for your support. Please return your feedback to:

Office of Bob Seely MP

Northwood House, Ward Avenue, Cowes PO31 8AZ

Email: bob.seely.mp@parliament.uk

Endnotes

- 1 <https://www.nao.org.uk/wp-content/uploads/2017/09/A-Short-Guide-to-Regulation.pdf>
- 2 <https://www.nao.org.uk/wp-content/uploads/2021/05/Principles-of-effective-regulation-SOff-interactive-accessible.pdf>, p.29
- 3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002507/national-bus-strategy.pdf

Summing up

The Isle of Wight is entirely dependent on ferry services for basic goods and services essential to life on the Island. The cross-Solent ferry market is commercial and services are provided at the discretion of private ferry operators who have no legal obligation to provide lifeline ferry services to the Island or meet given standards of service above the safety of crossings.

The cross-Solent ferry market comprises owner-operators who own both ships and port facilities on the Island. In the absence of any other available port facilities, there are significant barriers to market entry.

A model of private equity ownership has evolved and has been the basis of several generations of leveraged buyouts of the car ferry operators. The two car ferry operators provide collateral for acquisition debts and return on capital investment is paid out in the form of tax-deductible interest payments to lenders and shareholders. Few profits are declared and little tax paid. We all lose.

Since 1990, UK real GDP has increased by a multiplier of around 2.5 and ferry technology has advanced to include low-emission and

autonomous vessels. Under unregulated ownership, the commercial cross-Solent ferry market has seen a progressive reduction in sailings; with daily sailings on the Fishbourne-Portsmouth route reduced to half of the former timetable. Neither car ferry operator has significantly increased vehicle capacity. Wightlink's car ferries are 18 years old on average and Red Funnel's car ferries are 28 years old on average. Both operators are subject to repeated staff shortages, mechanical issues and 'technical' issues.

There is a moral and economic case to establish mandatory service standards for the cross-Solent ferry market. Ensuring that services are regular and affordable promotes social equality and parity of access to goods and services across the UK, on the Island and on the mainland. Better and more frequent services would also promote economic growth by allowing the expansion of the cross-Solent ferry market (in line with UK GDP), which has so far been limited by the commercial operators.

