

REASONS FOR NOT PURSUING LEVELLING UP FUNDING



The signing of both the shipyard contracts and the loan agreement is a very positive step for both the island community and the Company. It secures the lifeline link and provides certainty for islanders for decades to come.

However, we know there continue to be questions as to why the Company did not pursue Levelling Up Funding (LUF). We would, therefore, like to take this opportunity to provide a reminder of the reasons why the Company made this decision.

1. LEVELLING UP FUNDING IS NOT A GRANT	LUF is not a grant. It is not free money. The Company would have to pay a substantial annual lease charge for the use of the vessels.
2. RISK OF CHALLENGE	There was a high risk of challenge from other shipyards as our procurement process, although rigorous, did not follow a public procurement process. There was also a risk of challenge from other operators due to the initial operation of the route under LUF being awarded directly to the Company.
3. DELAYS AND HIGHER BUILD COSTS	If these risks of challenge materialised, which was highly likely, this would result in further delays of potentially 2 years, resulting in new vessels not being in operation until 2028 as a result of having to restart a new public procurement process and to respond to legal challenges. This would mean significantly higher build costs and also a great deal of Company money having to be spent fighting the challenges.
4. CURRENT VESSELS ARE IN URGENT NEED OF REPLACEMENT	The current vessels are over 40 years old and in urgent need of replacement. Any delay beyond 2026 will result in more disruption to the service and increasingly higher maintenance costs.
5. NO CERTAINTY OF FUNDING	There was no certainty with LUF. The money was not guaranteed from Government. It may never have materialised. The Company had already waited over 2 years following the announcement of funding being awarded but there was still no mechanism in place to obtain the funding. Private finance ensures certainty that the vessels will be in the water by 2026.
6. RESTRICTION ON PROFITS - HIGHER SKYBUS FARES	A condition of the LUF is that the level of profit generated by the sea link operation would be restricted to a "reasonable level". This restriction in profit to this level would have meant the Company could not provide the current level of support to Skybus for its capital expenditure requirements. Therefore Skybus prices would have to increase by at least 25% which would be a detrimental outcome for the community and would consequentially reduce the number of visitors to the islands. Although we raised concerns with officials on the impact this condition would have on Skybus fares, our concerns were rejected.
7. FUTURE UNCERTAINTY	The Company would have to tender for the operation every 5-7 years, meaning not only a huge amount of cost - both financial and time - having to undergo a tender process, but also uncertainty for existing employees and difficulty in recruiting new or replacement employees.
8. LACK OF CONTROL	The Company would not have full control of its own business as it would have minor representation on the Special Purpose Vehicle (SPV) Board.
9. PRIVATE LOAN FINANCIALLY FAVOURABLE	Long term, the private finance route is more financially favourable as the loan repayments would stop in 20 years (reducing each year throughout that period) but the lease payment under LUF would continue forever and most likely increase.