

Isles of Scilly Steamship

New Vessel Project



The Isles of Scilly Steamship Group is investing £42m in three new passenger and cargo vessels to maintain the **lifeline links** for the Isles of Scilly.

The new vessels - a passenger ship, cargo ship and inter-island freight catamaran - are all scheduled to be **in service by 2026**.

We have been providing a lifeline shipping service between Penzance and the Islands for **over 100 years**. With these new vessels we can meet the needs of islanders and visitors for decades to come.

In this brochure you will learn more about the process we've undertaken; our chosen shipyard and the project team, service improvements, our timeline for delivery, financing, fares, and the general designs and layouts of the proposed vessels.

Should you have further questions, please do speak with the project team, or submit your questions to:

VESSELPROJECTTEAM@ISSG.CO.UK



THE PROCESS

Project launch

We started our new vessel project in November 2019 when we appointed BMT as our naval architects to deliver new vessel design concepts for the replacement of Scillonian III and Gry Maritha.

Community consultation

In 2020 we conducted a community survey which asked numerous questions about what is important to islanders regarding the new vessel designs and operation.

Having consulted with, and listened to, the community, we found **resilience, reliability, journey time** and **affordability** to be the most important factors for future services.

Stakeholder consultation

Further stakeholder consultation followed to finalise the designs and then in June 2021 we announced the new concept design for Scillonian IV and the new cargo vessel to the community.

In September 2021 we held a consultation event to listen to islanders' views and in October 2021 we held a New Vessel Expo where we asked for further feedback from the community.

Developing designs

The design process included consideration of all vessel types including high-speed catamarans and ro-ro vessels. High-speed catamarans were ruled out on the basis of their unreliability in challenging sea conditions. Likewise, ro-ro vessels required significant changes to current infrastructure requiring many millions of pounds of investment.

These vessels will be uniquely suited to the route and will operate with the existing infrastructure.

OUR CHOSEN SHIPYARD | PIRIOU

We recently named Piriou as our preferred shipbuilder to build and deliver two new vessels for the Group.



Well established

Piriou is a long-established ship builder with over 50 years' experience building more than 600 vessels. It has over 1,400 highly-skilled employees, including an in-house design team and production facilities in Europe, Africa, and Asia. Piriou has a strong balance sheet with an annual turnover of over £300m. Appointing Piriou comes after months of thorough evaluation, technical questioning and site visits to France and Vietnam, as part of the Group's due diligence processes.



Similar ship builds

Piriou is a French ship building organisation with headquarters in Northwest France, approximately 100 miles from the Isles of Scilly. Piriou has built highly complex vessels with modern and low-emission propulsion systems. The Piriou project team was recently involved in a ferry design and build which services an off-island community in Western France. The vessel, the Oya III, has stabilisation fins and has many similar operational characteristics to our existing vessels.



Proven ability

We have a complex project and Piriou has the necessary experience of delivering similar vessels with relevant technical expertise. Piriou has demonstrated that it can deliver the specification within our agreed budget and provide the necessary contractual requirements to protect our investment. Unfortunately, neither of the UK shipyards could meet all our requirements.



Design and construction

Working alongside Piriou, we have commenced detailed design work with the intention of signing contracts later this year for the new Scillonian IV passenger ship and a new cargo vessel to replace Gry Maritha. Construction of both vessels will commence in Piriou's Vietnam shipyard in spring 2024. The vessels will then be transferred to Piriou's shipyard in France for commissioning and testing and will be delivered for the 2026 season.





Our **vessel project team** consists of our CEO, CFO, project manager, marine superintendent, and masters of Scillonian III, Gry Maritha and Lyonesse Lady.

This team evaluated the 13 bids and, through a **transparent and fair evaluation process**, created a shortlist of 5 shipyards which included 2 in the UK (Appledore and Cammell Laird).

NEW VESSEL PROJECT TEAM



Stuart Reid
Chief Executive
Officer



Judith Piper
Chief Financial
Officer



Chris Lingham
Project
Manager



Tom Weise
Marine
Superintendent (DPA)



David Redgrave
Scillonian III
Master



Victoria Bolitho
Scillonian III
Master



Tom Sexton
Gry Maritha
Master



Ben Jenkins
Lyonesse Lady
Skipper



Sharon Sandercock
Marketing &
Communications
Manager



Sian Matthews
Executive Assistant

SERVICE IMPROVEMENTS

All three vessels will have fuel-efficient engines which will **reduce emissions** while providing an enhanced service and **improved resilience** for the Islands.

The vessels will be designed and built so that they can be retrofitted with improvements in **green propulsion technology** when mature and proven.



SERVICE IMPROVEMENTS

Scillonian IV

- Faster journey time
- Quicker embarkation and disembarkation due to improved passenger flow and online check-in
- Improved stabilisation
- Significantly increased number of outdoor seats
- Improved views from inside the vessel due to larger windows
- Modern interior and comfortable seating with improved café and retail areas

New cargo vessel

- Significantly increased cargo capacity
- Increased chilled and frozen capacity
- More deck space and bigger crane to carry larger vehicles and heavier loads
- Dedicated passenger area for up to 12 people with comfortable seating and free refreshments. Islander fares at Travel Club rates
- Passengers able to depart from St Mary's at 9.30am 3 times per week

Lyonesse Lady II

- Significantly increased cargo capacity
- Shallow draft and faster speed to allow improved access to tidal restricted quays
- 50% reduction in fuel consumption

DELIVERY TIMELINE

LYONESSE LADY II

December 2024

NEW CARGO VESSEL

Winter 2025



SCILLONIAN IV

Spring 2026



FINANCING THE PROJECT

To deliver the vessels we will be using **private funding** which will cover 80% of the project costs, with the remaining 20% being from the Group's own cash reserves. This is in line with our strategy over the past 4 years to build cash reserves for the purpose of financing a deposit for the new vessels.

We will be working in partnership with **Lombard NatWest**, which previously provided funding for Gry Maritha, and have agreed a **loan of £33.6m**. This route gives us certainty with a **clear timeline** for replacing our ageing fleet.

The loan repayments are based on a 20-year cashflow (15-years for Lyonesse Lady) at a very **competitive interest rate**.

During the build phase, variable rate interest-only payments will be made. When the vessels are delivered, capital and interest repayments will commence and the Group will then have the option of either fixed or variable rate repayments.

Based on a 5% base rate, **average repayments (capital and interest) will be £2.95m per year** with higher interest payments at the start of the loan **reducing each year** as the loan progresses.

The Group has been generating cash of over £3m per year and therefore much of the loan **repayments can be self-financed** by the Group with **minimal increases to fares and freight prices**.

FARES AND FREIGHT PRICES

Fares for the visiting market



Fares for non-islanders are forecast to increase by 5% plus inflation for the next 3 years (2024 to 2026) followed by inflation-only increases.

What does this look like...

Excluding inflation, the increase for an adult fare for non-islanders by 2026 when Scillonian IV comes into operation is forecast to only be an additional £12.00.

Day trips: Currently £35 return. Excluding inflation, forecast to increase by a maximum of £5 by 2026 (but prices held at £35 return for 2024)

We will continue to offer discounted fares for a significant number of passengers such as group bookings, gig clubs and passengers travelling to other Isles of Scilly events.

Fares for Islanders Travel Club



Currently, the Travel Club members' adult fare on Scillonian III is £25 per journey which is a 67% discount on standard fares.

The £25 price for islanders will only be subject to inflationary increases.

Freight prices



An increase in freight pricing will follow a similar pattern to fares for non-islanders but is based around transporting 15,000 tonnes. If the volume increases above this, price increases will reduce.

What does this look like...

Based on the current average price per tonne of £135, excluding inflation, the 2026 prices for the new cargo vessel are forecast to increase by £20 per tonne or 2p per Kg.



QUESTIONS AND ANSWERS

Your questions

Throughout the life of this project, we will be holding a series of **community engagement events**. We would like to encourage the community to attend these events and **ask questions** about the design and the operations.

We will be providing **regular updates** on the process of the project through our own communication channels.

If you would like further information or have any concerns about any aspect of the project, please send an email to vesselprojectteam@issg.co.uk

How did you identify suitable shipyards?

Having created concept designs for Scillonian IV and the new cargo vessel we engaged specialist ferry broker Blair Reid to assist with the identification of a suitable shipyard. Using its knowledge and experience of the shipbuilding industry, Blair Reid identified an initial list of 30 shipyards which could build these complex vessels. The specification and new vessel designs were sent to each shipyard with a request to provide costs and further information on the experience of building similar vessels, design expertise, health and safety records and knowledge of working under UK regulations. Of the 30 shipyards approached we

received bids from 13 shipyards.

The new vessel project team evaluated the 13 bids and, through a transparent and fair evaluation process, created a shortlist of five shipyards which included 2 from the UK (Appledore and Cammell Laird).

Why did you pick Piriou?

The five shortlisted shipyards were asked to submit a Best And Final Offer (BAFO) along with further information to support their bid. The new vessel project team visited yards both in the UK and abroad as part of a further due diligence process. After many months of evaluation and visits the project team was unanimous in its decision to appoint Piriou as our preferred shipyard. This was based on a

combination of competitive value and technical expertise.

Piriou was the outstanding candidate. It has in-house design capability, experience of building similar vessels for off-island communities and a strong financial position. Piriou also understands the requirement of a lifeline service. It was able to provide the necessary contractual guarantees to protect our investment and ensure that we, and our investment, are protected in the unlikely event of encountering an issue.

We have visited Piriou shipyards in both Concarneau, France, and Vietnam and were impressed with the attention to detail and commitment to deliver a successful project by 2026.

Why are the vessels being built in Vietnam and then transferring to Piriou's shipyard in France?

We have a budget of £40m to build Scillonian IV and the new cargo vessel. These vessels will significantly improve the service to Scilly for the community and its visitors. We need to ensure we get the best value and by building in Vietnam we can stretch these funds further to ensure we get technically advanced and high-quality vessels.

It is not unusual for vessels which operate in the UK to be built abroad. The new passenger ferry for the Isle of Man was built in Korea and new vessels for the Scottish Islands are being built in Turkey.

What if there are technical issues with the vessels post-delivery?

All new builds will, at some stage during early trials on the route, encounter technical issues which will need resolving. Piriou has committed to appointing a post-build manager who will work with us if there are technical issues, so they can be resolved whilst the vessel is operating. The vessels will not have to return to Vietnam. All technical issues will be carried out locally by the equipment suppliers with support from Piriou, France. Given the experience and knowledge of Piriou in delivering over 600 vessels and with a dedicated on-site management team this is a low risk area.

QUESTIONS AND ANSWERS

Why didn't you choose a UK shipyard?

This is a complex project. We had to select a shipyard with the necessary experience of delivering similar vessels and with relevant technical expertise. We also needed a shipyard which could deliver the specification within the agreed budget and provide the necessary contractual requirements to protect our investment. Unfortunately, the UK shipyards could not meet all of our requirements.

What is a “preferred shipyard”?

Over the next few weeks we will continue to work on detailed designs with Piriou. Piriou naval architects, and members of the senior management team, visited

Penzance and the Isles of Scilly to continue to finalise the detailed design process. The “preferred” status allows Piriou to work with marine suppliers to obtain final costs for the contracts. In parallel, our appointed specialist marine law firm, HFW, will work with Piriou to finalise the new build contracts. We anticipate contracts being signed in the coming weeks.

Why did you choose a private finance solution?

We have committed to delivering these new vessels using private funding secured with Lombard NatWest. This will ensure that vessels are delivered by 2026, two years earlier than if we had selected Levelling Up Funding.

Why did you turn down Levelling Up Funding?

We started the new vessel project back in November 2019, 15 months before the Government announced its Levelling Up Funding programme. Having completed the design of the new vessels, we presented the designs to the Isles of Scilly Transport Board in March 2021. At this meeting, we were approached by the Council of the Isles of Scilly to submit a joint bid to apply for Levelling Up Funding. The Council and the Steamship Group submitted an application using our designs and agreeing to a set of terms, which would deliver the vessels by March 2026.

In October 2021, the Government announced the application had been successful. We were

delighted with the result and looked to commence the project immediately. Unfortunately, it was a further four months before we were able to engage with the Department for Transport and were informed that, although the money had been allocated, it could not be delivered as per the terms set out in the original application agreed between the Council and the Steamship Group.

In August 2022, 10 months after the funding announcement, we were informed of the revised terms from the Department for Transport. These were very different to those submitted in the original application. We were very disappointed; the delay in reaching the decision had seen build prices increase by more than 20%, and the new terms introduced significant risks to

the project which would delay the delivery of new vessels until beyond March 2028.

We continued to work with the Council and the Department for Transport to understand the detail of the SPV (Special Purpose Vehicle) model which would be used to own and operate the new vessels. We attended many project board meetings arranged by the Council, but there was no progress in delivering the detail. This was down to delays in the Council securing development funding to manage the project. In December 2022, after no further progress with the project and seeing prices increase further, we took our own legal advice and, together with our project partners, we submitted a revised plan to access the funding which would allow the project

to proceed. This was a low risk delivery option which allowed 49% of the Levelling Up Funding to be transferred direct to the Steamship Group. Although this revised plan was supported by the local Transport Board it was not supported by the Council of the Isles of Scilly and therefore could not proceed as the Council are the lead authority.

In July 2023, in one final opportunity to allow Levelling Up Funding to proceed, we were approached by the Council and the Department for Transport to attend a meeting to see if Levelling Up Funding terms could be amended to allow us to proceed. Despite a significant amount of work and meaningful discussions from all parties, the terms offered were still not acceptable to

QUESTIONS AND ANSWERS

the Steamship Group as they introduced significant risks to the Skybus lifeline link together with risks of legal challenge on the procurement process.

We were instructed by the Department for Transport and the Council of the Isles of Scilly, that under the proposed SPV model, the level of profit generated by the operator would have to be “reasonable”. We requested that the level of profit generated from the SPV model should be set at a level which would also continue to support the cash requirements of Skybus operations. This request was declined by the Department for Transport and the Council of the Isles of Scilly. By restricting the SPV model to not consider Skybus operations a significant increase in fares would be required to ensure

Skybus and Land’s End Airport would continue operating in its current form.

Aircraft and airports are very expensive to maintain and operate and require high levels of capital expenditure to replace engines and other major aircraft parts. Although under Levelling Up Funding it is anticipated that sea link fares would drop to 2022 levels (about a 20% reduction) the SPV model in restricting sufficient profits to support Skybus, would have resulted in Skybus fares increasing by over 25% which is unsustainable for the community and UK visitor market.

In addition, the new terms offered from the Department for Transport and the Council of the Isles of Scilly created

significant procurement risks for the Steamship Group, which would have resulted in the Steamship Group having to defend itself at its cost. If anticipated legal challenges were successful, it would have delayed the vessel replacement project by a further two years to March 2028.

As we are all aware, Scillonian III and Gry Maritha are amazing vessels and have served the islands well for over 40 years. However, the day-to-day maintenance to ensure a resilient operation is becoming increasingly challenging. We are working with our stakeholders to manage the resilience of the operation. Introducing risks which would see the delivery of new vessels take a further five years to 2028 is unacceptable and would

threaten the lifeline operation.

Who will provide the private financing solution?

With no progress being made on Levelling Up Funding, we announced our private financing solution in April 2023, which allows vessels to be delivered by 2026. The solution provided by Lombard NatWest was a result of many months of intense discussions with a number of private financing companies. Lombard NatWest previously provided finance to purchase Gry Maritha so they know the Group and its operation well. Lombard NatWest’s offer was not only highly competitive, they also understand the importance of the Isles of Scilly lifeline link and want to be a part of delivering this vital project.

What will be the impact on fares and freight pricing?

We have been transparent with our financial modelling and the impact that the new vessel project will have on fares. This brochure explains the forecast price increases.

We are continuing to look at operational procedures to improve efficiencies so that we can reduce the impact of fare increases for the community and our visitors. For the avoidance of doubt, fares and freight charges will not be tripling or increasing by 40% as has been rumoured on some social media posts.

This brochure explains the forecast price increases, but if

passenger and freight volumes increase, the forecast price increases will reduce. Excluding inflation, Islander Travel Club fares will remain at the current price of £25. We will also continue to offer discounted fares for a significant number of passengers.

Will there be the opportunity for the community to engage in the new vessel design and ask questions about the project?

We will be holding a series of community engagement events on St Mary’s and on the off-islands. We would encourage the community to attend these events and ask questions about the designs and the operation.

SCILLONIAN IV



Proposed Scillonian IV concepts for internal passenger areas, including onboard cafe.



NEW CARGO VESSEL



Proposed new cargo vessel concepts for internal passenger area, including refreshment facilities.



