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Senator L Farnham
Deputy Chief Minister
(via email)

14th April 2021

Dear Deputy Chief Minister

The pandemic has severely disrupted the operations of Condor Ferries Limited (“Condor”), which according to the company has resulted in a loss of revenue in excess of £50 million. As the Island’s principal provider of freight and passenger ferry services, the Government has engaged with Condor since the introduction of public health restrictions in order to ensure a continuity of these essential services.

Working in partnership with the Ports of Jersey, the Government extended support to Condor during the first phase of Covid-19. This included the business’ inclusion in the Co-Funded Payroll Scheme and releasing them from operating a full schedule. The Government also invested substantially in the Test and Trace Programme to enable a resumption of travel to and from the Island that allowed Condor to restore passenger services through the Summer and Autumn period.

In order to ensure a sustainable service, Condor’s operating agreement directs it maintain a return on average capital employed (ROACE) within minimum and maximum thresholds, and to propose measures to adjust prices and/or expenditure should its financial performance fall outside of these bounds. In August 2020, in accordance with these provisions, Condor formally gave notice that its ROACE was beneath the minimum boundary. As directed by the operating agreement, Condor suggested several measures that would allow it to improve its ROACE. Condor’s proposed actions would have had a material impact on freight costs and ferry services to Jersey.

It was agreed, through discussion, that both Jersey and Guernsey would explore a new Operating Agreement, which would include “transitory support” during the ongoing pandemic. Accordingly, you and the Chief Minister agreed that the interests of Islanders would be better served if the Government could agree appropriately tailored financial support for Condor in partnership with the States of Guernsey.

In light of the deteriorating public health context during the fourth quarter of 2020 and, following extended negotiations led by the Principal Accountable Officer at the time and the Director of Partnerships, you and the Chief Minister made an offer of direct Government Support on 03 December 2020. This support was intended to bridge the period until such time as public health restrictions had been withdrawn and consequently commercial operations were less severely impacted.

In the intervening months, officials have worked to ensure that the conditions associated with further support can be materially safeguarded. Also, we now know that Condor currently intend to resume high-speed services on 21 May (broadly aligned with the UK Government's roadmap for lifting lockdown in England) rather than at the start of April as had originally been anticipated. Now that conditions have been judged to be satisfactorily met, it is now necessary to make a payment in respect of the period December to March and appropriate to agree additional funding until May when inbound travel will resume.

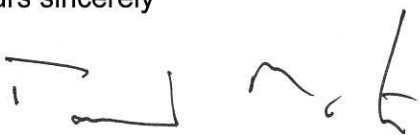
I recognise the value that this agreement is likely to achieve for Islanders and the economic recovery, by averting the need by Condor to increase freight prices to the Island, and make other cost reduction choices that would reduce the speed with which fast-ferry passenger travel to the Island can be resumed. These matters are difficult to quantify but, for the period December to May alone, are estimated to exceed £2 million in avoided costs to the economy alongside the social and economic benefit of a quicker return of passenger travel by sea. However, given the period of time that has elapsed since the original offer in December 2020, there is now significant urgency to conclude the associated legal agreement and make payments.

The Public Finances Manual places requirements on me as the Principal Accountable Officer to ensure economy, efficiency and effectiveness of government spending. The terms of the economic support were negotiated before my arrival and agreed by you and the Chief Minister. While I can see the good reasons behind the intervention I have not been involved in the dynamic negotiations and discussions that have taken place over the course of several months and led to the current agreement. Without the benefit of this experience, in the very limited time available, I cannot satisfy myself to the standards required of me under the Public Finances Manual that this intervention would represent value for money. In particular, given challenges surrounding the counterfactual scenario. Accordingly, in order to proceed I require your written instruction.

I should note that I consider it is entirely appropriate for you to make a judgement to proceed. Doing so is likely to lead to economic and social benefits for Jersey. As a Minister, you are also capable of taking a broader view of the merits of intervention than I am capable of weighing, in my role under the Public Finances Manual.

In line with the usual process for ministerial instructions this letter will be copied to the Comptroller and Auditor General and published on Gov.je.

Yours sincerely



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