THE COMPANY OF PROPRIETORS OF WHITCHURCH BRIDGE

PUBLIC INQUIRY 19th May 2015

INSPECTOR: Mr M Moore

Closing Submissions on behalf of the Company of Proprietors of Whitchurch Bridge to increase the Toll Charges at Whitchurch Bridge

OUTLINE OF CLOSING SUBMISSION

1 Why there is a bridge at Whitchurch today

Twelve months ago today there was no road bridge across the river at Whitchurch, just some steel piles and a lot of cranes and barges. For the previous six months there had been no bridge. The previous bridge, standing since the very early days of the motor car back in 1902, had been pulled down before it fell down, in accordance with the advice of our bridge engineers.

This caused a certain amount of inconvenience to all concerned.

Everyone was therefore very happy when the bridge was reopened in September last year, after the Company had carried out its public duty as required by law to reconstruct the bridge, at a cost of £6.5m. We had a little party on the bridge, complete with 1902 motor car, and everyone came to celebrate.

Now it is time to pay for the bridge by an appropriate level of toll charges, again as required by law. Part of the increased toll will go to repay the loans that the Company took out, from the bank and from its shareholders, in order to complete the work- which increased in cost because the project had been delayed through no fault of its own. Part will go to employ local people in collecting the tolls. A small part will go to reward shareholders for their investment, as with any other company. And part will go towards the investment required by law to be set aside for the rebuilding of this bridge in 100 years' time.

All this is as required by law and statute. The only question required to be determined by this inquiry is what level of tolls is required to be charged in order for the Company to fulfil its statutory duties.

Now today we have heard a lot of speculation, what-ifs, and might-have-beens, most of which is not relevant to the facts of the matter in hand for this inquiry

The key facts are these.

2 The Bridge:

The bridge has been reconstructed. It has cost the company £6.5m. These facts cannot be disputed.

Some objectors have commented on the management of this project. The Company believes that it has comprehensively addressed these objections. However this is fundamentally irrelevant to this Inquiry – the costs have been incurred and the Company has borrowed £3.4m in order to pay for the costs. This has to be repaid over the next fifteen years. That is a clear legal commitment.

The Company is committed by statute to maintaining the bridge forever in good condition, and it has done that successfully for more than 200 years. The reconstructed bridge now has a design life of more than 100 years, and despite the exceptionally adverse circumstances surrounding the reconstruction it is a highly successful engineering construction that both enhances the environment of Whitchurch and Pangbourne and preserves as far as possible the original elements and appearance of the Grade II listed structure. No one to our knowledge has suggested that we should have built a cheap concrete bridge instead.

3 The Operating Costs

Mr Weir's statement shows that the Company is efficiently run, and provides employment to local people. No one has seriously suggested that this is not the case.

4 The Level of Toll Income

The costs of reconstruction ultimately have to be paid from toll income. There is now no reserve fund to fall back on and hence no investment income, and indeed the Company is committed by statute to making provision each year towards building up a reserve fund out of toll income for future reconstruction, however far out in the future that may be. This is provided for in the analysis of costs used to build up the funding requirement by the annual provision of depreciation based on the replacement cost of the bridge. As noted in my evidence, this is not set aside in equal instalments – there is no build-up of reserve funds for the first five years, and even after 15 years only 7% of the expected total replacement funding has been built up, on the expectation as noted by several commentators that the balance can be made up over the next 85 years. We believe that this provision is reasonable, prudent and required of us by law.

The planned level of toll income has been calculated over the full period of 15 years, and is based on a continuation of a significant concession for regular users through the bridge card. The average toll is made up of full price cash payments, for 46% of users, and reduced price concession payments, for 54% of users. It is important to the Company and to users that this differential is maintained.

Putting the level of toll income and the proposed increase into context, our data shows that the average bridge user crosses the bridge just 10 times a month, at an average cost at the discounted rate of just £3 per month. This will increase by just £1.50 per month under this proposal, or just 5 pence per day. Less than 50 users cross the bridge more than twice a day, and even they will only be paying an extra 30 pence per day.

5 The Funding of the Reconstruction

Objectors seek to suggest that the reconstruction should have been financed by some other method or methods. However this is unrealistic.

The Company has funded the reconstruction by a mixture of internal financing and debt – this is perfectly normal business practice, and indeed was foreseen to a lesser extent in the toll application that was approved in 2008.

Now the bridge is reconstructed there will be no reserve fund and the repayment of principal and the payment of interest on any loan will need to be done from toll income, including residual funds after deduction of revenue costs, in accordance with normal business and accounting practice. The size of the current Barclays Bank loan is the greatest that can be serviced, and is provided over an extended period at commercial interest rates. Other sources of finance, for example equity, are normally more expensive than debt due to the required risk premium.

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In addition the Company has borrowed money from its own shareholders, and this too needs to be repaid. No-one will provide capital unless they get an adequate return, i.e. a return comparable to alternative investments. That return has to come from toll income.

6 The Level of Dividends

The current and proposed approach to dividends is reasonable and appropriate and in accordance with the 1954 Act as modified by the 1988 Act.

The primary guidance on the appropriate level of tolls is in the first part of s.6(3) of the 1954 Act as amended:

"In making any order on an application under this section, the Minister shall have regard to the financial position and future prospects of the undertaking and shall not make any revision of charges which in his opinion would be likely to result in the undertaking receiving an annual revenue either substantially less or substantially more than adequate to meet such expenditure on the working, management and maintenance of the undertaking and such other costs, charges and expenses of the undertaking as are properly chargeable to revenue, including reasonable contributions to any reserve, contingency or other fund and, where appropriate, a reasonable return upon the investment of the Company of Proprietors of Whitchurch Bridge in the bridge[1] as defined in section 2 of the Whitchurch Bridge Act 1988[2]:

The bridge is defined by section 2 to include "other assets of whatever description for the time being held or used by the Company in connection with" the bridge. The relevant assets include the reconstructed bridge, the toll house and all other assets held by the Company, less the loan finance required to fund the reconstruction.

This approach is consistent with that approved at the last Inquiry, when the Inspector agreed that the Company is entitled to determine its contributions to the reserve fund in accordance with a long term financial plan which ensures that such a balance will exist to pay reasonable dividends. It is entirely normal and in accordance with standard business practice for a company to both have debt financing and pay dividends.

The company keep dividends at a low level in the context of rates of return for a regulated operation. The weighted average cost of capital for the Company, taking account of the mix of dividends and loan finance costs, is significantly below the weighted average cost of capital for other regulated industries, due specifically to the exceptionally low dividend payment

The company believe that dividends of up to 2.3% of assets over the long term are entirely reasonable and appropriate, and this again was accepted in the previous Inquiry as being an unusually low rate of return. Dividends have been cut to zero in three out of the last four years to help in funding the reconstruction costs, and, as have been noted, will be kept at 1.3% for the next 15 years to take account of the exceptionally high costs of the reconstruction.

7 The Volume of Traffic

This brings me to the question of traffic volume forecasts, which as I noted in response to Mr Moore's question earlier is a key variable in determining the required future level of toll charges. The Company's view is that it has no valid evidence to divert from its current forecasts, which are based on the experience of the last ten years, albeit at a slower rate of decline than that experienced more recently. This forecast, like all assumptions concerning the future, may be wrong. Clearly the volume of traffic will level out at some point, but we don't know when that will happen, and nor does anyone else. Our evidence is that the average volume of 1.4m crossings in collecting hours over the next 15 years, compared with 1.52m now, is a reasonable assumption.

As we have noted, the Company is not permitted to distribute its reserve funds to shareholders. So if our forecasts are wrong, and volume does level off or increase, all that will happen is the funds will be built up faster or loans paid off earlier. This will be taken into account in determining future toll levels, and if appropriate these may be reduced.

8 Concessionary Tolls and Undertakings

Concern has been expressed by objectors on the impact of increased tolls on users and the community, and the Company is prepared to make certain undertakings.

Undertakings:

The Company will undertake that, that if the current 60p cash toll is approved then for at least the next ten years (or until a further Toll Application is submitted and approved) the concessionary toll offered by way of the bridge card will not at any time exceed 45p.

The Company will further undertake to phase in the increase in the discounted toll rate, starting with a rate of 40 pence for at least the first 12 months after the effective date of the increase in the cash toll.

In addition the Company will undertake to expand and publicise the Frequent User Scheme, which will cap the level of tolls that any user will have to pay to a maximum of £30 per month, or less than

£1 per day, whilst the concessionary Toll remains at not more than 45p. The Company will also look at a scheme to cap the maximum payable per day based on the number of crossings in that day.

The Company will continue to publish its accounts and other communications on its website. If toll levels and funding are seen to rise unreasonably, then special circumstances may be deemed to exist and a lower toll imposed.

9 Conclusions

The proposed increase in tolls is necessary to fund the reconstruction cost of £6.5m, and the working, management and maintenance of the operation, together with contributions to reserves and a low level of return on investment, during the period of 15 years used as the basis for this application..

The dividends paid and planned are low, reasonable, and appropriate and in accordance with the Acts.

The application is based on the continuation of substantial concessions for regular users through use of the bridge card. An undertaking has been given as to the limits within which the discretion will be operated.

Any person or body with a substantial interest can make an application for a reduction in the tolls if they consider that the concessions are not being operated reasonably in the future.

We have shown clearly that this increase is necessary, and we have shown that it is neither more nor less than is required for the purposes specified by law. Therefore we submit that this toll increase should be granted in order that the Company can continue to fulfil its statutory obligations to provide a bridge over the River Thames, to the great benefit of the people of Whitchurch and Pangbourne

We urge you to recommend to the Secretary of State that the application be approved.

Michael Beckley, MA, FCCA

19th May 2015