



Department for Transport

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Dear Geoff Weir

WHITCHURCH TOLL BRIDGE: TOLL REVIEW APPLICATION

1. I am directed by the Secretary of State for Transport to refer to the toll review application dated 5th November 2014, by the Whitchurch Toll Bridge Company, under the Transport Charges &c. (Miscellaneous Provisions) Act 1954, seeking consent to revise the toll charges for use of the Whitchurch Toll bridge.
2. The existing and the proposed tolls charged are shown on the attached Annex to this letter below.
3. The Secretary of State in reaching his decision has considered his obligations under Section 6(3) of the Transport Charges &c. (Miscellaneous Provisions) Act 1954, that he must:

"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 tolled undertaking."

4. The Company has advised that it needs to increase its toll charges as it has now completed the reconstruction of the toll bridge. The reconstruction work has cost more than was initially estimated. The Company has faced a significant increase in construction costs which has required it to borrow more funds than previously anticipated to fund the bridge replacement project. This current toll application is based on the requirements of operations over the next 15 years, during which there is a commitment to repay the bank loan with interest.
5. The Company has advised that under the terms of the Whitchurch Bridge Acts, maintenance of the Bridge, including reconstruction & any necessary repairs is the responsibility of the Company, and any works must be funded from toll revenues.
6. The Secretary of State has also considered the various representations against the toll application. The material points of these are set out in paragraphs 63 to 97 of the Inspector's Report. In summary the objections are that;
 - (a) Mismanagement of the reconstruction of the bridge which led to a significant cost overrun.
 - (b) Means of funding the cost overrun should be reviewed and the borrowing repaid over a longer time period.
 - (c) Rate at which contributions should be made to a reserve fund for the future replacement of the bridge.
 - (d) Excessive dividends being received by shareholders.
 - (e) More consideration should be given to efficiency savings and the sale of assets.
 - (f) Wrong assumptions have been made about the future levels of traffic using the bridge.
 - (g) Tolls proposed are excessive, particularly in the context of previous increases in recent years, and they would have an unacceptable adverse effect on local residents and businesses.
 - (h) Publicity for the toll increases was inadequate.
 - (i) Whether the Company has a legal basis for using toll revenue to repay borrowing.
7. Full details of the Inspector's conclusions are set out in the Inspector's Report. A summary of the Inspector's response to the above points, raised by objectors are at the Annex to this letter.
8. In conclusion, the Inspector states that he is satisfied that the proposals by the Company, for an increase in the maximum tolls to be charged for the bridge, are consistent with the legal framework governing the bridge. On this basis he recommends that the Secretary of State makes a tolls Order in accordance with the terms proposed by the Company. The Inspector confirms that he has had regard to all matters raised, whether at the Inquiry or in written representations, but they do not alter the conclusions he has reached.

9. On the basis of the evidence before him and having regard to his obligations under Section 6 of the Transport Charges &c. (Miscellaneous Provisions) Act 1954, the Secretary of State is satisfied that the proposed toll revisions are justified. The Secretary of State has, therefore, decided to make the Order.
10. A copy of the signed Order together with a copy of the Inspector's Report, is attached for information.

Yours sincerely



Cathy Miller
Head of Cities, Policy & Delivery

Annex A

	Vehicle Category	Current Toll Charge	Proposed Toll Charge
1.	Vehicles not exceeding 3.5 tonnes maximum gross weight	40p	60p
2.	Vehicles exceeding 3.5 tonnes maximum gross weight	£3.00	£4.00

Annex B

Summary of Objectors' concerns & the Inspector's response

- 1. The mismanagement of the reconstruction of the bridge which led to a significant cost overrun.**
 - The reconstruction work was significantly delayed by adverse weather conditions and flooding.
 - Environment Agency was unwilling to accept the closure of the navigation channel in the summer months. As such, works had to be undertaken in the winter, and under the Agency's restrictions.
 - The Company had undertaken an assessment of the potential flooding risk. A contract was let that meant that the contractor carried the risk for up to 1 in 5 year events only, but as the flooding incident was a 1 in 20 year event, the Company had to meet additional costs.
 - Oxfordshire County Council, in discussion with its own design consultant, had properly evaluated the contract options that were open to the Company and selected that which was the best fit for the circumstances. (Had a fixed price model had been used, bidders may have priced in all the risks which could have led to an even higher cost).
 - The Company also took professional advice throughout the planning and reconstruction process. The Inspector is therefore satisfied that the contract and the bridge reconstruction were not mismanaged.

- 2. The means of funding the cost overrun should be reviewed and the borrowing repaid over a longer time period.**
 - The application is based on the requirements of the operation over the next 15 years during which there is a commitment to repay the bank loan with interest.
 - Bank borrowing is a cash flow loan designed to help companies overcome short term cashflow problems. The loan has been extended beyond the repayment period

that would normally be acceptable, taking account of the exceptional circumstances involved.

- No specific evidence that longer term business loans were available for this kind of situation, akin to a house mortgage for example.
- Government flood damage funding, would have been too small to make any material difference to the Company's financial position.
- Since the previous toll application was approved in 2009, the Company has faced a significant increase in construction costs which has required it to borrow substantially more money than previously anticipated to fund the replacement project.
- Current financial position of the Company is that it must repay the loans with interest.
- Inspector has concluded therefore that the Company has not behaved inappropriately or unreasonably in reaching that position.

3. The rate at which contributions should be made to a reserve fund for the future replacement of the bridge.

- The 1988 Act specifies that the Company should set apart each year a reserve fund for maintenance and renewal of the bridge. New bridge has an expected lifespan of 100 years+, so fund would have to be built up over that period.
- The Act does not require that equal contributions to the fund are made each year. The Company indicates that no build-up of reserve funds are proposed in the first five years and that only 7% of the total requirement would be achieved after.
- As it's a new bridge its unlikely that significant repairs would be required in the immediate future.
- But the Inspector has agreed that it would be prudent for the Company to start to build up the fund to cover any repairs that are necessary.

4. The excessive dividends being received by shareholders.

- The Company is a regulated public utility and is therefore entitled to refer to the returns to shareholders used in those industries; - typically an expected return on shareholder assets of about 6%.
- In the past the return on assets paid has been 2.3% and this was the projected assumption when the last toll increase was approved in 2009. For this toll application a figure of 1.3% has been used initially in the debt repayment period.
- Under the terms of the Acts, the Company is entitled to pay a dividend once it has met its expenses, including contributions to the reserve fund. It has been a long term financial plan to secure such a fund for replacement works while at the same

time providing reasonable dividends. It is not unusual for borrowing to be serviced while at the same time paying dividends.

- The return proposed by the Company here is significantly below that paid generally in regulated public utilities, reflecting repayment of loans in the early years.
- Dividend is based on the value of the Company assets, including the bridge. This has been valued currently at its actual construction cost, including the abnormal costs.
- However, the price paid establishes a value for the asset at that point in time and this is not out of accordance with professional accounting practice.
- The Company will need to keep under review the replacement cost of the bridge on an annual basis as the value will affect the amount to be set aside in the reserve fund.
- Overall, the Inspector considers that a reasonable approach has been taken to shareholder dividends.

5. More consideration should be given to efficiency savings and the sale of assets.

- The Company has in place management systems to control its revenue and costs.
- No evidence to show that any savings would be of such significance that they would cause the Company revenue to substantially exceed that necessary to meet expenditure over the loan repayment period.
- Toll house provides nearby accommodation for the Bridge Manager to deal with cash handling and any issues arising at toll collection booth where staff may be lone workers.
- Pangbourne approach footway is narrow and the railings are in need of attention, and repair works will also benefit pedestrian users of the bridge, so this work cannot be deferred. Although not part of the bridge reconstruction, it does accord with the statutory framework for the Company.

Inspector has stated that the Company should keep its assets and working practices under review, but has confirmed that the assumptions regarding its financial model are appropriate and justified.

6. Wrong assumptions have been made about future levels of traffic using the bridge.

- Traffic volumes crossing the bridge were steady or even slightly increasing during the 1990s, however they have fallen by some 15% since 1997. Toll increases during this period would have played a part in this trend but there is no indication of a recovery in user numbers.
- Accordingly, the Company's projections of traffic levels, which cover the 15 year period for the loan repayment, show a steady decline, albeit at a slower rate.

- Traffic growth assumption is a key variable in determining the toll charges. The Inspector's view is that a percentage toll increase of the scale proposed is bound to have some impact on the propensity to use the bridge, at least in the short to medium term.
 - On the basis of the current trend, the assumption of a continuing decline at the level projected by the Company the Inspector has agreed that this is reasonable and appropriate.
 - The Inspector has also stated that the Company should continue to monitor traffic volumes so that if they level off or increase this can be taken into account in future toll levels.
- 7. The tolls proposed are excessive, particularly in the context of previous increases in recent years, and they would have an unacceptable adverse effect on local residents and businesses.**

The proposed tolls

- The increase to 60p is based on reduced price concessionary tolls for regular users of the bridge.
- The proposed tolls increase would be a significant % increase for all users, if approved.
- Nevertheless, the Inspector in having regard to the assumptions made and in the context of the position in funding the bridge reconstruction, he is satisfied that the Company has made a reasonable assessment of its future financial prospects.

Effect on local communities

- Regular bridge users are more likely to have Bridge Cards. Since re-opening, while over half the crossings are made by Bridge Card holders, only 17% of these involved usage more than once a day and less than 1% more than twice a day.
- Although some residents would undoubtedly incur a materially larger financial outlay, the additional burden would not have such a significant impact for a large proportion of bridge users.
- The Company has provided a number of undertakings in terms of the concessionary tolls, including that unless another toll application is submitted and approved, the Bridge Card rate would not exceed 45p for at least 10 years.
- The Inspector said that this should give regular users some confidence that unless there is a significant change in circumstances their rate would be fixed for some time ahead.
- No evidence to suggest that there is any interest by a public body, such as a local authority, taking ownership of the bridge as suggested in some representations. In any event, this would not in itself mean that tolls would no longer be charged.

8. The publicity for the toll increases was inadequate.

- The Inspector agreed that the Company had fulfilled its statutory obligations in terms of publicity for the toll application.
- The Company had also used other means of communication in addition to newspaper advertisements, including its own website.
- In the event, there was a significant public response to the application.

9. Whether the Company has a legal basis for using toll revenue to repay borrowing.

- The Acts provide for the Company to borrow money and for the toll income to be spent on paying interest on any borrowing.
- Although not specifically allowing for the repayment of capital, loans or borrowing, there is a general provision under section 4(e) of the 1988 Act for tolls to be spent on meeting any expenditure incurred by the Company in, or in connection with, the maintenance, repair or alteration of the bridge.
- The Inspector has agreed that the repayment of money borrowed to reconstruct the bridge clearly falls within this category.