

---

# Report to the Secretary of State for Transport

by Mike Moore BA(Hons) MRTPI CMILT MCIHT

an Inspector appointed by the Secretary of State for Transport

Date: 26 June 2015

---

**WHITCHURCH BRIDGE ACTS 1792 AND 1988**  
**AND THE**  
**TRANSPORT CHARGES &c (MISCELLANEOUS PROVISIONS) ACT 1954**

**THE COMPANY OF PROPRIETORS OF WHITCHURCH BRIDGE**  
**APPLICATION FOR AN ORDER TO INCREASE THE TOLLS AT**  
**WHITCHURCH BRIDGE**

Inquiry held on 19 May 2015

File Ref: DPI/E0345/15/4

---

## TABLE OF CONTENTS

	Page	
<b>1</b>	<b>PREAMBLE</b>	<b>1</b>
	The Inquiry	1
	Responses	1
	This report	2
<b>2</b>	<b>DESCRIPTION OF THE BRIDGE AND ITS SURROUNDINGS</b>	<b>2</b>
<b>3</b>	<b>THE CASE FOR THE BRIDGE COMPANY</b>	<b>3</b>
<b>4</b>	<b>THE CASE FOR THE OBJECTORS</b>	<b>7</b>
	Councillor Pamela Bale	7
	David Watson	7
	Mike Holland	8
	Ian Hargreaves	8
	Peter McManners	9
	Peter Dragonetti	9
	Jim Kerevan	9
	Graham Morfey	10
	Mike Scott	10
	Jonathan Pearson	11
	Barry Read	11
	Amanda Holland	11
	Helen Bowsher	12
	Terry Driscoll	12
	Written Representations	12
<b>5</b>	<b>CONCLUSIONS</b>	<b>13</b>
<b>6</b>	<b>RECOMMENDATION</b>	<b>18</b>
	<b>APPENDICES</b>	<b>19</b>
<b>A</b>	<b>APPEARANCES</b>	<b>19</b>
<b>B</b>	<b>LIST OF DOCUMENTS</b>	<b>19</b>

## CASE DETAILS

- The application, dated 5 November 2014, is made by the Company of Proprietors of Whitchurch Bridge under Section 6 of the Transport Charges &c (Miscellaneous Provisions) Act 1954.
- The effect of the proposal, if approved would be to authorise an increase in tolls to 60p per crossing (from 40p) for Class 1 vehicles weighing less than 3.5 tonnes maximum gross weight (mgw) and to £4 per crossing (from £3) for Class 2 vehicles exceeding this weight.

**Summary of Recommendation: I recommend that the Order should be made in accordance with the application.**

---

## PREAMBLE

### The Inquiry

1. On 19 May 2015 I held a Public Inquiry at the George Hotel, The Square, Pangbourne for the purpose of considering the application by the Company of Proprietors of Whitchurch Bridge ('the Company'), submitted to the Secretary of State on 5 November 2014 for an increase in toll charges for crossing Whitchurch Bridge. I made an unaccompanied visit to the bridge and its surroundings on 18 May 2015 and an accompanied visit to inspect the bridge on 19 May 2015.

### Responses

2. At the commencement of the Inquiry there were 293 written objections, including from Pangbourne, Whitchurch and Goring Heath Parish Councils, and an on-line petition with some 1,520 signatories organised by *No! to Toll Rise Whitchurch Bridge*.
3. The Company confirmed at the Inquiry that it had complied with all the statutory requirements with respect to the application.
4. The main grounds of objection can be summarised as follows:
  - The mismanagement of the reconstruction of the bridge which led to a significant cost overrun.
  - The means of funding the cost overrun should be reviewed and the borrowing repaid over a longer time period.
  - The rate at which contributions should be made to a reserve fund for the future replacement of the bridge.
  - The excessive dividends being received by shareholders.

- More consideration should be given to efficiency savings and the sale of assets.
- The wrong assumptions have been made about the future levels of traffic using the bridge.
- 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 publicity for the toll increases was inadequate.
- Whether the Company has a legal basis for using toll revenue to repay borrowing.

### **This report**

5. This report contains a brief description of the bridge and its surroundings, the gist of the cases presented and my conclusions and recommendation. Lists of Inquiry appearances and documents are attached as appendices.

### **DESCRIPTION OF THE BRIDGE AND ITS SURROUNDINGS**

6. Whitchurch Bridge is a privately-owned toll bridge carrying the B471 over the River Thames between the parishes of Whitchurch in Oxfordshire and Pangbourne in West Berkshire. The road links the A329 in Pangbourne with the A4074 in Woodcote. This is the only vehicular crossing of the river between Reading to the east and Goring to the west. While there is a primary school at Whitchurch, most of the local shops and amenities are in Pangbourne. The bridge provides convenient access to these facilities for residents of Whitchurch and other settlements in the area. The alternative to the bridge is a 14km diversion via Goring.
7. The present bridge is a Grade II listed structure originally built in 1902. It was reconstructed in 2013-2014 due to its deteriorating condition. The bridge was replaced by a temporary footbridge during the construction period and reopened in September 2014. The side girders and other visually important components were retained in the reconstructed bridge while new structural elements were introduced to ensure that it met current highway standards. This has meant that it has retained its original character and visual appearance.
8. Tolls are collected at the northern (Oxfordshire) end of the bridge where there is a staffed toll booth with swing-arm barriers. There are also automatic card readers which enable the use of pre paid proximity cards (known as Bridge Cards). Next to the booth is the toll house which dates from 1792 and is listed Grade II. The bridge has an environmental weight limit of 7.5 tonnes mgw. There is a footway on one side of the bridge.

## THE CASE FOR THE BRIDGE COMPANY

The material points are (references are to documents in the Company's written submissions as recorded in Appendix B):

### Background

9. The Company of Proprietors of Whitchurch Bridge is a public body set up by Act of Parliament and governed by statutory regulation. It is a regulated utility providing a public utility service, making a profit for its shareholders provided that it works within publicly established regulations and operates effectively and efficiently in the public interest. Under the terms of the Whitchurch Bridge Acts<sup>1</sup> the maintenance of the bridge is the responsibility of the Company and not the local highway authority<sup>2</sup>.
10. The application arises because the Company has just completed the reconstruction of the bridge at a cost of £6.4 million. At the time of the previous toll application in 2008 the estimated cost of the reconstruction works was £3.22 million and this was used as the basis for the approved Class 1 toll increase to 40p. Although the project was being planned for more than 20 years, the eventual cost exceeded the budget by nearly 50% due to the exceptional circumstances of river flooding in early 2014 and the unusually complex nature of the reconstruction work. It is for this reason alone that the Company has been obliged to seek a 50% increase in tolls<sup>3</sup>.

### Reconstruction of the bridge

11. The Environment Agency has a statutory duty to maintain the maximum availability of the navigation channel to its commercial users and for this reason they would only agree to a closure for bridge reconstruction in the winter months. The estimated cost of the works had increased to £4.4 million by 2013. A contract model was chosen that reflected the circumstances of the bridge, and appropriate contract administration was put in place<sup>4</sup>.
12. The contract delays and increased costs were due to<sup>5</sup>:
  - Delayed service diversions at the start of the project due to streetworks in Pangbourne of which the Company had not been informed.
  - Demolition delay due to the condition of the structure which could not be identified until traffic had been diverted off the bridge.
  - The exceptionally adverse weather conditions which resulted in flooding of the site compound and strong river flow rates leading to an overall delay of 11 weeks. When work resumed this was under Environment Agency restrictions, to allow for navigable traffic. A flood probability study had been undertaken and the flooding was equivalent to a 1 in 20 year event<sup>6</sup>. The monthly rainfall

---

<sup>1</sup> AP3, AP4

<sup>2</sup> AP19, paras 4-5

<sup>3</sup> AP16, para 2

<sup>4</sup> AP13, section 3, AP18, sections 2-5

<sup>5</sup> AP18, section 6

<sup>6</sup> AP18 para 6.4.5 and Appendix 3

in January and February 2014 easily exceeded a 1 in 10 year event. The rainfall and flooding effects constituted a valid compensation event. The risk was the contractors only for up to 1 in 5 year events so the Company had to meet the additional costs.

- Piling delays due to the need for additional testing to be sure that the chalk quality was as expected in order to ensure the long term integrity of the bridge.
  - Service reconnections were delayed despite having agreed dates with the utility companies well in advance.
  - As a result of all these delays the contract supervision team had to work for longer than intended.
13. The contract was not mismanaged but the exceptional flooding resulted in significant cost increases. The model contract processes were followed meticulously and the bank appointed its own monitoring surveyors to verify that it was being properly managed<sup>7</sup>.

### Operating costs

14. The Company is efficiently run and provides employment for local people. Toll revenue, collection efficiency, wages and other costs are monitored and controlled through internal control processes<sup>8</sup>.

### Communications

15. In addition to the newspaper advertisements the Company uses its website, Twitter and local Parish magazines to communicate. There has been radio and television coverage of the reconstruction and toll application. Far more has been done to publicise the application than required by the Acts and Department for Transport<sup>9</sup>.

### Level of toll income

16. 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. The Company is committed by statute to make provision every year towards building up a reserve fund out of toll income for future reconstruction, however far in the future that may be<sup>10</sup>. 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. 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 achieved on the expectation that the balance can be made up over the next 85 years<sup>11</sup>.
17. 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

---

<sup>7</sup> AP17, paras 4-10

<sup>8</sup> AP12, AP17 para 13

<sup>9</sup> AP 17, paras 21-24

<sup>10</sup> AP2, s6(3)

<sup>11</sup> AP1 p16, AP14, sections 3 and 5

users through the Bridge Card. The average toll is made up of reduced price concession payments accounting for about 53% of users with full price cash payments for the remainder. It is important to the Company and to users that this differential is maintained<sup>12</sup>.

18. Putting the level of toll income and the proposed increase into context, the average Bridge Card user crosses 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 5p per day. Less than 50 users cross more than twice a day, and even they will only be paying an extra 30p per day<sup>13</sup>.

### Funding of the reconstruction

19. 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 funding 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<sup>14</sup>.
20. 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 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<sup>15</sup>.
21. 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, comparable to alternative investments. That return has to come from toll income.
22. The Company was eligible for some aid from Government funding to assist with flood damage. In the event the funding had run out, but the sum available was so small that it would not have materially affected the financial position of the Company<sup>16</sup>.

### Level of dividends

23. The approach to dividends is reasonable and appropriate in accordance with the Acts. The primary guidance on the appropriate level of tolls is in the first part of section 6(3) of the Transport Charges & (Miscellaneous Provisions) Act 1954 ('the 1954 Act') as modified by the Whitchurch Bridge Act 1988 ('the 1988 Act') which includes provision for a reasonable return upon the investment of the Company<sup>17</sup>. Section 2 of the 1988 Act defines this investment as including the Whitchurch Bridge and all the lands, easements, toll-houses, toll-gates, signals,

---

<sup>12</sup> AP17 para 17

<sup>13</sup> AP20, para 2

<sup>14</sup> AP6, para 5.6

<sup>15</sup> AP19, paras 16, 25, 27

<sup>16</sup> Mr Weir oral evidence

<sup>17</sup> AP2, AP4

offices and other assets of whatever description for the time being held or used by the Company in connection with that bridge<sup>18</sup>.

24. 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<sup>19</sup>. It is entirely normal and in accordance with standard business practice for a company to have both debt financing and pay dividends.
25. The Company keeps 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 that for other regulated industries, due specifically to the exceptionally low dividend payment<sup>20</sup>.
26. The Company believes that dividends of up to 2.3% of assets over the long term are entirely reasonable and appropriate and this was accepted at the previous Inquiry as being an unusually low rate of return<sup>21</sup>. Dividends have been cut to zero in three out of the last four years to help in funding the reconstruction costs and will be kept at 1.3% for the next 15 years to take account of the exceptionally high cost of the reconstruction<sup>22</sup>.

#### Volume of traffic

27. Over the last 5 years traffic volumes have decreased by 2.2% per annum, compared to a forecast of 0.6% per annum in the 2008 toll application.<sup>23</sup> The forecasts are 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. Clearly the volume of traffic will level out at some point but it is not known when that will happen. The evidence is that the average annual volume of 1.4 million crossings in collecting hours over the next 15 years, compared with 1.52 million now, is a reasonable assumption<sup>24</sup>. If the forecast are wrong and the volume does level off or increase then all that will happen is that 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 they may be reduced.

#### Concessionary tolls and undertakings

28. The Company has given a number of undertakings should the 60p toll be approved. For at least the next 10 years, or until another toll application is submitted and approved, the concessionary toll offered by the Bridge Card will not exceed 45p. It has also undertaken to phase in the increase in the discounted toll rate, starting with a rate of 40p for the first 12 months after the

---

<sup>18</sup> AP4

<sup>19</sup> AP7, para 6.16

<sup>20</sup> AP19, para 28

<sup>21</sup> AP7, para 6.18

<sup>22</sup> AP15, section 3

<sup>23</sup> AP1, Appendix 1

<sup>24</sup> AP17, para 29

effective date of the increase in the cash toll. It will expand and publicise the Frequent User Scheme which will cap the level of tolls for any user to a maximum of £30 per month, or less than £1 per day, while the concessionary toll remains at not more than 45p. The Company will look at a scheme to cap the maximum payable per day based on the number of crossings in that day. It will continue to publish its accounts and other communications on its website. If toll levels and funding are seen to rise unreasonably, then it indicates that special circumstances may be deemed to exist and a lower toll imposed<sup>25</sup>.

## Conclusions

29. The increase in tolls is necessary to fund the reconstruction cost 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 a basis for the application. The dividends paid are low, reasonable and appropriate in accordance with the Acts.
30. 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 the concessions are not being operated reasonably in the future.
31. The increase is necessary and is neither more nor less than is required for the purposes specified by law. The application 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.

## THE CASE FOR THE OBJECTORS

The material points are (taken, where provided, from their statements read out at the Inquiry<sup>26</sup>. References are to documents as recorded in Appendix B):

### Councillor Pamela Bale

32. Councillor Bale represents the Pangbourne Ward on West Berkshire Council and spoke in that capacity but not on behalf of the Council. She was concerned that the period of closure of the bridge had significantly affected shops and businesses in Pangbourne. While trade had returned, the increase in the toll so soon after reopening would be likely to deter those from villages north of Whitchurch. A possible lesser increase in charges should be considered.

### David Watson

33. David Watson, a resident of Goring Heath, questioned why the bank loan was being repaid over 15 years. If it was spread over 25 years like a normal mortgage it would reduce the annual repayments and therefore the toll. He could not see why contributions to reserves for the next rebuild were necessary while the loan was being repaid. There would be plenty of time after that for an

---

<sup>25</sup> AP21, section 8

<sup>26</sup> OB1 to OB9

adequate fund to be established for a replacement 100 years hence. The Company wishes to continue paying dividends to shareholders but they should not be insulated from risk at the expense of users. Dividends should be suspended while the Company is in debt. The effect of a decline in the assumed number of crossings each year has been exaggerated and in any event, it is likely that crossings will increase.

34. Taking these points together Mr Watson concludes that a toll slightly less than the current 40p is justified. This does not take account of other factors such as the necessity of improvements to the Pangbourne approach, whether there are disposable assets, the loan terms from shareholders, compensation from other sources and social impact.

#### **Mike Holland**

35. Mike Holland, a resident of Whitchurch Hill and economic consultant, believes that the Company's traffic projections are too pessimistic. Traffic levels were stable prior to 2008<sup>27</sup> and the decline since then has been due to the economic crisis and the 2009 toll increase. Using Department for Transport official forecasts of traffic growth for South East England traffic could be double that forecast by the Company to 2040<sup>28</sup>. Local factors, including the opening of an IKEA store west of Reading, are likely to lead to increased traffic using the bridge.
36. The Company should accept some blame for the problems experienced when rebuilding the bridge and should not expect bridge users to accept all the risks of a project over which they had no control. There was poor project management through a lack of preparation, inadequate risk assessment and a failure to liaise effectively with other stakeholders. In particular, in dealing with the Environment Agency the severe financial risk and potential time delays associated with flooding in the winter months should have been stressed.
37. It is not clear why the value of the bridge in the Company's accounts appreciates over time. It is also inappropriate to use the full cost of reconstruction, including the overrun costs, as a basis for this calculation. Overall, the bridge is likely to be far more profitable than the Company claims and there is no case for increasing the toll.

#### **Ian Hargreaves**

38. Ian Hargreaves, a resident of Whitchurch-on-Thames, has constructed a cash flow model based on the information in the application. However, he has removed the interest payable on the convertible loan notes and the cost of the footway improvements. His analysis shows that no contributions to the reserve fund are necessary over the next 10 years and only 2% of the final rebuild cost needs to be set aside by 2039. A 50% toll increase is much in excess of what is required and his calculations indicate phased increases of 15% every 10 years are sufficient. The dividend to shareholders when added to the interest on the convertible loan notes is a significant increase in return for them when they should be accepting the consequences of an investment that has gone wrong.

---

<sup>27</sup> OB10

<sup>28</sup> OB11

The Company should be looking to the potential for asset sales, such as the toll house, and pursuing cost saving measures. The dividend should be considerably less than proposed until the health of the company improves.

#### **Peter McManners**

39. Peter McManners, Co-chairman of Pangbourne and Whitchurch Sustainability Group, considers that the Company has done a good job in bringing the bridge up to standard, that the work was managed well and that there was good communication with the community while this happened. However, that the work cost more than anticipated is part of the commercial risk. It would be wrong to allow the Company to increase the toll simply to secure its financial return on its investment.

#### **Peter Dragonetti**

40. Peter Dragonetti, Chair of Goring Heath Parish Council, considers that the 1988 Act does not give powers to the Company to use income from tolls for the repayment of loans. The Act sets out that interest may be paid but that it does not give the power to repay capital, loans or borrowing. The payment of dividends may only be paid out of the balance remaining when contributions to a reserve fund have been made. However, since the last Inquiry the payment of dividends has been ultra vires as the reserve fund has clearly been inadequate for the purpose of renewing the bridge. The application is based on a decrease in traffic which is not in line with national projections or developments in the region and local area.

#### **Jim Kerevan**

41. Jim Kerevan, a resident of Whitchurch-on-Thames and chartered accountant, spoke on behalf of Peter Hawley, Stephen Trinder and Whitchurch Parish Council. If the application were to be approved, he points to what would be a 500% increase in the toll since 2005 in a period when inflation has been no more than 2% annually. The Company had failed to set aside enough money for the rebuilding of the bridge. It should have sought to increase the toll charges in small increases over a much longer period and should not have paid dividends to shareholders when they knew a shortfall was inevitable. It is clear that over many years the Company did not put aside sufficient monies for the rebuild and so any dividends paid were clearly unreasonable. There are many examples of companies suspending dividends when they are having problems.
42. The Company has not provided any cash flow forecasts. The projected accounts assume an annual reduction in traffic of 1% per annum which is unduly pessimistic in the context of economic recovery and proposed housing developments locally. The replacement cost of the bridge takes as its starting point the cost of the 2013/14 rebuild, which was far more than it should have been due to the delays caused by the exceptional weather conditions. The future replacement cost should be based on average conditions which would mean a substantial write off is needed.
43. The balance sheet shows that after 10 years of meeting loan repayments and interest, with dividends to shareholders of nearly £650,000 in that period, the funds available to shareholders will have increased from about £3.3 million to over £7 million. This arises mainly because the present bridge users will be

effectively funding the repayment of loans and interest due to the failure of the Company to build up an adequate reserve.

44. The Inspector's report following the 2009 toll Inquiry concluded that the impact of the increase to 40p on regular users could be reduced by raising the concessionary toll gradually. However, this was done almost immediately.
45. As there was a vacancy on the Committee of Proprietors when the application was submitted it is questionable whether it was empowered to act at that time. Overall, the Company has provided insufficient evidence to justify an increase and is asking present users of the bridge to pay for their past mismanagement.

#### **Graham Morfey**

46. Mr Morfey, a resident of Whitchurch-on-Thames and retired chartered accountant, believes that the projected decline in traffic using the bridge has ignored the effect of price increases in the recent past. Between 1994 and 2007 volumes were steady<sup>29</sup>. With economic recovery and local development a more realistic assumption would be that traffic levels remain the same as in 2012/13. He accepts the Company's operating costs figures except for maintenance which should be lower for a new bridge. The Pangbourne approach footway is a long term investment and should be funded on the same basis as the bridge rebuild.
47. The issue of convertible loan stock to shareholders is at 6% which is higher than obtainable on the open market and should be repaid and the additional loan funded by a longer term loan at commercial rates. In terms of the bank loan a more realistic repayment period is 50 years. A new fund for the next bridge should start in 2065. The new bridge is more substantially built than the old one and is projected to have a life span of at least 100 years.
48. Based on his revised assumptions Mr Morfey has produced a cash flow projection for year one which shows a surplus. He concludes that there would not be a negative cash flow until 2023 and therefore that the existing tolls should remain at least until 2022.

#### **Mike Scott**

49. Mike Scott, a resident of Whitchurch-on-Thames, considers that the Company should have shown more prudence in the past by ensuring that the reserve fund was sufficient to pay for the construction of the new bridge. It is a requirement of the 1988 Act to set aside money annually for this purpose before any payment of dividends. The alternative to the use of the bridge is a long detour so the Company does not have the discipline of the market place to encourage efficient business practices. They should look to reducing costs and not paying dividends for the foreseeable future. Finance could be raised by selling more shares or by asking existing shareholders for more cash. Until these measures have been thoroughly examined bridge users and local people cannot be confident that there is a need for an increase in the toll.

---

<sup>29</sup> OB10

### **Jonathan Pearson**

50. Jonathan Pearson, a resident of Sulham, considers that it was the original shareholders who took the risk in building a bridge in the first instance. Many of the current shareholders have inherited their shares. While the rebuild has been good, the process of demolition was not. There should have been more worst case scenario planning. There is no need to replace the Pangbourne approach footway which is adequate and a repaint of the railings would be sufficient.

### **Barry Read**

51. Barry Read, a resident of Littleworth, is a regular user of the bridge for family reasons. He believes that the actual cost of replacing the bridge should not be the starting point for assessing the funding requirement as this includes abnormal costs. The lower contract price should have been used instead. It is unnecessary to build up the same amount in the reserve fund every year. In particular, it is unnecessary to build up 25% of the replacement cost over the next 25 years at the same time as the loan is being repaid. There is no need for any contributions to the reserve fund in the first 25 years as the amount required for replacement in 100 years time could be achieved by modest contributions after this initial period. Once the loans are paid off in 15 years time that part of the increased toll would be available to shareholders.

52. The Company's figures show 1.6 million crossings in the year before closure. However, over the next 8 years it is shown to be 1.4 million. It is not clear how these figures relate to one another and this is an important factor in the toll increase calculation.

53. The Company indicates that in regulated industries the rate of return for shareholders is in the range 6-10% but there is no evidence for this. By making more reasonable assumptions about these and other factors, Mr Read considers that a toll charge of 35p can easily be demonstrated.

### **Amanda Holland**

54. Amanda Holland, a resident of Whitchurch Hill, points to the need for residents on the northern side of the river to access local shops, the doctors' surgery, hospital emergency department, petrol filling station, supermarket, sports facilities and all major transport links via the bridge. Communications with the local community over the toll increase have been problematic. The application was poorly advertised and many bridge users were unaware that it had been made.

55. While the toll increase would be 20p for a single trip for regular users this could amount to £100 or more annually on top of what is paid already. Very frequent users currently pay £312 per annum. The Company should not be paying a dividend. It failed to build up an adequate reserve fund and to make adequate provision for project overruns. Traffic using the bridge will not reduce as assumed. At 60p the toll would be one of the most expensive in the world when measured per kilometre. The law should be changed so that a single company cannot have a monopoly of a protected river crossing in perpetuity.

### Helen Bowsher

56. Helen Bowsher is a mother and resident of Whitchurch Hill. She asks why the construction contract did not protect the Company more, including consideration of a fixed cost. As it stands there was some sharing of risk and it is not clear why the contractor did not meet more of the overrun costs. The Company has identified 6 reasons why the cost increases occurred. In each case the validity of these can be questioned.
57. Reductions in traffic using the bridge have been due to the toll increases. The Company failed to build up the reserve fund to the level required. The frequent user cards are open to anyone and account for 54% of revenue. It was the Company's decision not to limit this to local villagers and yet this is seen as part of the toll increase justification. Dividends should not be paid until they can be afforded.
58. The combined journeys for Mrs Bowsher and her husband across the bridge currently cost about £600 per annum. The publicity for the proposed increase was inadequate and there should have been a notice on the bridge itself.

### Terry Driscoll

59. Terry Driscoll, resident of Whitchurch Hill, asks why the communication with residents was so poor. He is concerned at the valuation of the bridge, the moral position of the Company in paying a dividend while paying off the loan, the poor project management of reconstruction and the assumptions about future traffic levels.

### Written Representations

60. The written representations, comprising some 293 letters or emails of objection, and cover broadly the same issues raised at the Inquiry by those parties that spoke. The main additional point is that the bridge should be taken out of private ownership and become the responsibility of a public body such as a local highway authority.
61. An on-line petition organised by *No! to Toll Rise Whitchurch Bridge* with 1,520 signatures was submitted at the Inquiry. The petition seeks the rejection of the application to increase toll charges. It refers to the 300% increase over the last 11 years and the effect of a further increase on local residents and businesses. They should not be penalised for the mismanagement of the reconstruction project by the Company. The needs of shareholders should not be put above those of the local community who do not have a reasonable alternative for crossing the Thames.

## INSPECTOR'S CONCLUSIONS

62. Taking into account the submissions at the Inquiry and the written representations, I have reached the following conclusions. Numbers in square brackets are cross references to source paragraph numbers in this report. Other references are to documents as recorded in Appendix B.

### Basis of assessment

63. Section 6 of the Transport Charges & c (Miscellaneous Provisions) Act 1954<sup>30</sup> as amended by sections 2 and 3 of the Whitchurch Bridge Act 1988<sup>31</sup> sets out the basis on which the application should be considered. The Secretary of State must have regard to the financial position and future prospects of the applicant Company. The Acts indicate that charges should not be revised in such a way as to result in the undertaking receiving an annual revenue either substantially less or substantially more than adequate to meet 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 as defined in Section 2 of the 1988 Act.
64. The Acts also include a proviso whereby the Secretary of State is required to consider if special circumstances have existed whereby the Company has used its revenues for purposes other than those specified in the Acts or created an unreasonable burden on regular users of the bridge, having regard to any concessionary rate of tolls. There are therefore factors other than the financial position and future prospects of the Company that the Secretary of State can take into account.

### Current financial position

65. The Inspector who reported on the 2008 application for toll increases concluded that when the Company were made aware in 2005 of the likely increased cost of rebuilding the bridge, it took what measures it could, including reducing the planned dividend and increasing the concessionary toll, in order to increase the contributions to the reserve fund. In his report he concluded that at that point there was little evidence to suggest that the Company had operated in a manner which was not within its statutory remit or could not be seen as acceptable and reasonable<sup>32</sup>. At that time the expectation was that the reserve fund would cover at least 75% of reconstruction costs with the remainder from loans or other commercial funding<sup>33</sup>.
66. While some objectors<sup>[40, 41, 49]</sup> have raised concerns in relation to the current application that more money should have been put into the reserve fund in the past, I have seen no persuasive evidence that would lead me to a different conclusion to the previous Inspector in terms of the position of the Company at

---

<sup>30</sup> AP2

<sup>31</sup> AP4

<sup>32</sup> AP7, para 6.19

<sup>33</sup> AP6, para 4.8

the time of his report. However, since then the bridge has been reconstructed at significantly greater cost than anticipated at that time<sup>[10]</sup>.

### *Management of the bridge reconstruction*

67. The Company are professionally advised by Oxfordshire County Council in relation to engineering matters. At the time of the 2008 application, the overall cost of reconstruction was estimated at £3.22 million. The Council reviewed this annually. With increases in construction costs, the decision to use a temporary footbridge rather than a ferry during the construction period, planning application costs and a VAT increase, this had risen to £4.1 million by 2013. The contract was awarded at this price plus a contingency of 7.5% to give an expected outturn of £4.4 million<sup>[11]</sup>. There is no doubt that construction costs in the period since the last toll increase have risen sharply, well ahead of general inflation, notwithstanding the bridge reconstruction issues.
68. The reconstruction itself was beset by a number of problems, the most significant of which was the delay caused by adverse weather conditions and flooding. The Environment Agency was clearly unwilling to accept the closure of the navigation channel in the summer months. As such, the works had to take place in the winter. However, an assessment of the potential flooding risk was undertaken<sup>[12]</sup>.
69. A contract was let that meant that the contractor carried the risk for up to 1 in 5 year events but, as the flooding incident was a 1 in 20 year event, the Company had to meet the additional cost<sup>[12]</sup>. The 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 here<sup>[11, 13]</sup>. If a fixed price model had been used, bidders may have priced in all the risks which could have led to an even higher cost.
70. There is a reasonable explanation for the unforeseen costs that were not directly attributable to the bad weather<sup>[12]</sup>. The Company took professional advice throughout the planning and reconstruction process. Although concerns have been expressed about the way the project was carried out,<sup>[36, 39, 49, 59]</sup> I am satisfied that the contract and the bridge reconstruction were not mismanaged.

### *Funding of the reconstruction*

71. The bridge reconstruction cost £6.4 million of which £3.1 million was covered by the replacement fund and operating income. The shortfall was met by £2.8 million in bank borrowing and £0.5 million from shareholder funding by way of convertible loan stock<sup>34</sup>. 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.
72. The bank borrowing is in the form of a cashflow loan designed to help companies overcome short term cashflow problems. In this case the loan has been extended beyond the repayment period that would normally be acceptable<sup>35</sup>, taking account of the exceptional circumstances. Alternative approaches to funding were suggested by objectors<sup>[33, 47]</sup>. However, there was no specific

---

<sup>34</sup> AP1, para 4.11

<sup>35</sup> AP19, para 27

evidence that longer term business loans were available for this kind of situation, akin to a house mortgage for example.

73. It is suggested that issue of convertible loan stock at 6% is at a higher rate than that obtainable in the open market<sup>[47]</sup>. However, the loan is unsecured. Given the position with the extended bank loan it is not clear that there would have been other sources of funding available to the Company at better rates<sup>[21]</sup>.
74. Government flood damage funding, if still available, would have been too small to make any material difference to the Company's financial position<sup>[22]</sup>.
75. Overall, 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. The current financial position of the Company is therefore that it must repay the loans with interest. However, the Company has not behaved inappropriately or unreasonably in reaching that position.

#### Future prospects

76. The future prospects of the Company are affected by a number of key factors and assumptions which are each considered in turn.

#### *Contributions to the reserve fund*

77. The 1988 Act specifies that the Company should set apart each year a reserve fund for maintenance and renewal of the bridge<sup>36</sup>. The new structure has an expected lifespan of 100 years or more so the fund would have to be built up over that period. Some objectors have questioned why contributions to the fund should be made during the initial loan repayment period as there would still be plenty of time to build it up thereafter<sup>[33, 38, 51]</sup>.
78. 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 15<sup>[16]</sup>. As this is a new bridge it is unlikely that significant repairs would be required in the immediate future. However, it would be prudent to start to build up the fund to cover any repairs that were necessary and I consider that the Company has adopted a proportionate approach in the circumstances.

#### *Shareholder dividends*

79. The Company is a regulated public utility and is therefore entitled to refer to the returns to shareholders used in those industries. This is typically an expected return on shareholder assets of about 6%<sup>37</sup>. In the past the return on assets paid here 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<sup>[26]</sup>.
80. It has been suggested that dividends should be suspended while the debt is being repaid<sup>[33, 49, 59]</sup>. Under the terms of the Acts<sup>[23]</sup> the Company is entitled to pay a dividend once it has met its expenses, including contributions to the

---

<sup>36</sup> AP4, s7(1)

<sup>37</sup> AP15, section 3, AP19, para 25

reserve fund. However, it has a long term financial plan to secure such a fund for replacement 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 here is significantly below that paid generally in regulated public utilities, reflecting the repayment of loans in the early years.

81. The 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, rather than the contract price as suggested by objectors<sup>[37, 42, 51]</sup>. However, the price paid establishes a value for the asset at that point in time and it has not been suggested that this is out of accordance with professional accounting practice. The Company will also 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, I consider that a reasonable approach has been taken to shareholder dividends.

#### *Efficiency savings and the sale of assets*

82. Various objectors suggest that efficiency savings should be pursued or assets such as the toll house sold<sup>[34, 38, 49, 50]</sup>. The Company has in place management systems to control its revenue and costs<sup>[14]</sup>. There is insufficient 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. The toll house provides nearby accommodation for the Bridge Manager to deal with cash handling and any issues arising at the toll collection booth where staff may be lone workers.
83. It is also suggested that improvements to the Pangbourne approach footway and railings, which were not addressed in the bridge reconstruction, should be deferred<sup>[46, 50]</sup>. However, the footway is narrow and the railings in need of attention. There would be benefits to pedestrian users of the bridge and the expenditure would accord with the statutory framework for the Company.
84. The Company should keep its assets and working practices under review but the assumptions made in this regard in its financial model are appropriate and justified.

#### *Traffic forecasts*

85. Although traffic volumes crossing the bridge were fairly steady or even slightly increasing during the 1990s<sup>[35, 46]</sup>, they have fallen by some 15% since 1997<sup>38</sup>. No doubt the toll increases during this period have played a part in this trend but there has been no indication of a recovery in 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. This contrasts with the national forecasts of traffic on all roads which show traffic growth<sup>[35, 40]</sup>.
86. Reference was made to developments in the locality that might generate more traffic but specific details of any possible implications for the bridge were not provided<sup>[35, 40, 42]</sup>. However, the traffic growth assumption is a key variable in determining the toll charges<sup>[27]</sup>. In my view, a percentage toll increase of the scale proposed is bound to have some impact on the propensity to use the

---

<sup>38</sup> AP19, para 13

bridge, at least in the short to medium term. As such, on the basis of the current trend the assumption of a continuing decline at the level projected by the Company is reasonable and appropriate. Nonetheless, the Company should continue to monitor traffic volumes so that, as indicated in its submissions, if they level off or increase this can be taken into account in future toll levels<sup>[27]</sup>.

### *Level of tolls*

87. The toll for a Class 1 vehicle was increased from 10p to 20p in 2005 with a further increase to the current level of 40p in 2009<sup>[41]</sup>. The increase to 60p is based on reduced price concessionary tolls for regular users. Nevertheless, there would be a very significant percentage increase for all users if this application were to be approved. Various other financial models incorporating different assumptions were promoted by objectors <sup>[for example 38, 48, 53]</sup> and there was concern at the absence of cash flow forecasts<sup>[42]</sup>. Nonetheless, having regard to the assumptions made and in the context of the position in funding the bridge reconstruction, I am satisfied that the Company has made a reasonable assessment of its future prospects.

### **Other considerations**

#### *Effect on local communities*

88. The increases would be very significant in the light of previous rises during a period of economic austerity and clearly well ahead of inflation. Their impact would be felt most by regular bridge users. In particular, the facilities in Pangbourne are used by residents to the north of the river <sup>[51, 54, 58]</sup> and there could be an impact on businesses<sup>[32]</sup>.
89. The 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<sup>[18]</sup> <sup>39</sup>. 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 users.
90. The Company has provided a number of undertakings in terms of the concessionary tolls<sup>[28]</sup>, including that unless another application is approved, the Bridge Card rate would not exceed 45p for at least 10 years. 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. It has been stated that a commitment to raise the concessionary toll gradually after the last increase was not complied with<sup>[44]</sup>. However, the Company has given the undertakings in its closing submissions and there is no evident reason why they should not be honoured.
91. There is no evidence<sup>40</sup> 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<sup>[55, 60]</sup>. In any event, this would not in itself mean that tolls would no longer be charged.

---

<sup>39</sup> AP20, paras 3.6, 3.7

<sup>40</sup> AP19, para 4

92. Any increase in tolls is unwelcome to local people and businesses but the overall impact on the community would not be so significant as to outweigh the requirement to have regard to the future prospects of the Company.

#### *Publicity*

93. Objectors have referred to a lack of publicity and poor communications, including the absence of a notice on the bridge setting out details of the proposed increase to tolls<sup>[53, 57, 58]</sup>. However, The Company fulfilled its statutory obligations in terms of publicity for the application<sup>[3]</sup>. It uses means of communication other than newspaper advertisements, including its own website<sup>[15]</sup>. Whereas notices are usually posted at the appropriate site, they were not placed on the bridge due to concerns about the welfare of the toll collectors. In the event, there was a significant public response to the application.

#### *Legal basis for using toll revenue to repay borrowing*

94. The Acts provide for the Company to borrow money and for the toll income to be spent on paying interest on any borrowing<sup>41</sup>. They do not provide specifically for the repayment of capital, loans or borrowing<sup>[39]</sup>. However, 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 repayment of money borrowed to reconstruct the bridge would clearly fall within this.

#### **Overall conclusion**

95. The proposed tolls would represent a significant increase in charges, felt most by regular bridge users. Nevertheless, having regard to the above key considerations relating to the financial position and future prospects of the Company, I conclude that the application is a reasonable proposal. Therefore, the special circumstances as defined in the 1954 and 1988 Acts do not exist. The Company's annual revenue would be neither substantially less nor substantially more than adequate to meet its expenditure. It would therefore be appropriate to make an Order increasing the toll charges as set out in the application.

96. I have had regard to all other matters raised, whether at the Inquiry or in written representations, but these do not alter my conclusions and recommendation.

#### **RECOMMENDATION**

97. I recommend that the Secretary of State for Transport should make an Order under Section 6 of the Transport Charges & c (Miscellaneous Provisions) Act 1954 in accordance with the formal application.

*M J Moore*

---

<sup>41</sup> AP4, ss4 and 6

**INSPECTOR**

## APPENDICES

### A: APPEARANCES

#### FOR THE COMPANY:

Michael Beckley MA FCCA	Chairman of the Committee of Management of the Company of Proprietors of Whitchurch Bridge
Geoffrey Weir BSc CEng MIMechE	Clerk to the Company of Proprietors of Whitchurch Bridge
Martin Brain CEng MICE	Principal Engineer, Bridges, Oxfordshire County Council

#### OBJECTORS

Pamela Bale	Ward Councillor for Pangbourne, West Berkshire Council
David Watson	
Mike Holland	All local residents
Ian Hargreaves	
Peter McManners	Co-chairman Pangbourne and Whitchurch Sustainability Group
Peter Dragonetti	Chair, Goring Heath Parish Council
Jim Kerevan FCA	
Graham Morfey FCA (Retired)	
Mike Scott	
Jonathan Pearson	All local residents
Barry Read	
Amanda Holland	
Helen Bowsher	
Terry Driscoll	

### B: DOCUMENTS

#### Inquiry documents

IN1	Attendance list
IN2	File of Inspector's documents dated 26 March 2015

#### Applicant's documents

File of applicant's Statement of Reasons containing:

AP1	Toll application 5 November 2014
AP2	Transport Charges &c (Miscellaneous Provisions) Act 1954
AP3	Whitchurch Bridge Act 1792
AP4	Whitchurch Bridge Act 1988
AP5	Details of public notices

- AP6 Toll application 31 October 2008
- AP7 2009 Public Inquiry – Inspector’s Report
- AP8 Toll Order 12 October 2009
- AP9 Summary of Statutory Liabilities and Responsibilities
- AP10 Bridge Utility and the Community
- AP11 Further Information : Communications
- AP12 Management of Toll Collection
- AP13 Bridge Reconstruction Project Management
- AP14 Financial Management and the Business Planning Model
- AP15 Dividend Policy and a Reasonable Return on Investment

Documents submitted at or after the Inquiry:

- AP16 Opening Statement read by Mr Beckley
- AP17 Witness and Rebuttal Statements read by Mr Weir
- AP18 Witness Statement read by Mr Brain
- AP19 Witness Statement read by Mr Beckley
- AP20 Analysis of Bridge Card Usage
- AP21 Closing submissions read by Mr Beckley

Objectors’ documents

- OB1 Statement read by David Watson
- OB2 Statement read by Mike Holland
- OB3 Statement read by Ian Hargreaves
- OB4 Statement read by Peter McManners
- OB5 Statement read by Jim Kerevan
- OB6 Statement read by Graham Morfey
- OB7 Statement read by Mike Scott
- OB8 Statement read by Amanda Holland
- OB9 Statement read by Amanda Bowsher
- OB10 Appendix 4 to Whitchurch Bridge Toll Application July 2004
- OB11 Road Transport Forecasts 2013 – Results from Department for Transport’s National Transport Model
- OB12 Schedules and letters/emails of objection (293) received before the Inquiry
- OB13 On-line petition organised by *No! to Toll Rise Whitchurch Bridge* with 1,520 signatures