

Statement of Reasons

**Application by the Company of Proprietors of Whitchurch Bridge
to increase the Toll Charges at Whitchurch Bridge**

**WHITCHURCH BRIDGE ACTS 1792 and 1988
and
TRANSPORT CHARGES Etc (MISCELLANEOUS
PROVISIONS) ACT 1954
PUBLIC INQUIRY**

2ND/3RD JUNE 2009

Prepared by the Company of Proprietors of Whitchurch Bridge

The Toll House
Whitchurch Bridge
Pangbourne
Berkshire
RG8 7DF

1) INTRODUCTION

- a) This Statement has been prepared by the Company of Proprietors of Whitchurch Bridge (the Company). Its purpose is to summarise the reasons for the Application to the Secretary of State for Transport to increase the Toll Charges at Whitchurch Bridge to assist the progress of the Public Inquiry due to open on 2 June 2009.
- b) The Company has applied to the Secretary of State for Transport for permission to increase the tolls which it is authorised to charge the users of its bridge and roads (ref Document 1 - Toll Application)
- c) The proposed increases, which have been advertised, are as follows:

Classification of Vehicles	Present	Proposed
Class 1 vehicle – not exceeding 3.5 tonnes mgw	20p	40p
Class 2 vehicle – exceeding 3.5 tonnes mgw	200p	300p

2) SUMMARY

- a) The Company of Proprietors of Whitchurch Bridge (the Company) has made a Toll Application dated 31st October 2008 to the Secretary of State for Transport to increase cash tolls for Class 1 vehicles from 20p to 40p
- a) The Company is enacted by its own Acts – The Whitchurch Bridge Acts of 1792 and 1988 – and is regulated by the Department for Transport under the Transport Charges Etc (Miscellaneous Provisions) Act 1954
- b) The Company's principal obligation is to provide and maintain at all times a safe and reliable crossing across the Thames between Whitchurch-on-Thames and Pangbourne.
- c) The Company's professional engineering advisers – The Oxfordshire County Council Bridges Department (OCC) have advised the Company that the current 107-year-old bridge should be reconstructed by 2015. The Company assesses risk in this area on a continuous basis, and, in the light of professional advice, have planned for bridge reconstruction in 2013 - 2014.
- d) The costs of bridge reconstruction have increased very substantially over the last 5 years as a result of a more detailed and specific engineering assessment, and total £3.22m at today's prices. At the time of the last toll application in 2004 the comparable cost estimate was £1.26m.
- e) The Company derives its income from toll charges alone. Apart from the cash toll it gives substantial discounts to regular users who have Bridge Cards. This discount is currently set at 30%.
- f) Approximately 2 million vehicles cross the Bridge per year, of which there are approximately 1.8 million crossings during normal hours of collection. Traffic volumes crossing the bridge are monitored closely 24 hours a day with counting equipment and have been falling slightly over the last six years. The Company has forecast a future decrease of 0.6% per annum, based on this established trend.
- g) The toll operation is strictly managed and there is now little scope for further operational efficiencies.

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- h) The financial affairs of the Company are tightly controlled. The Company has developed its own funding model over many years to assess and forecast income, costs, the building of a Reserve Fund (RF) for major maintenance and replacement/reconstruction of the bridge, and dividends to shareholders. This model is based on reasonable assumptions regarding both general economic circumstances and specific factors affecting the operations of the Company.
- i) Dividends to shareholders are paid from toll income, and historically, currently, and in the future are forecast at a 2.3% return on investment – low against comparable regulated industries.
- j) The current level of tolls is not sufficient to enable the Company to meet its obligations as specified in the Whitchurch Bridge Act 1792 and the Transport Charges &c (Miscellaneous Provisions) Act 1954, as modified by the Whitchurch Bridge Act 1988
- k) The Company therefore assesses that only increases in the vehicle tolls can produce the income required to meet its obligations, and that a 40p cash toll is required to build up the RF from its current £1.4m to the target £2.9m by 2013, when the bridge reconstruction cost is forecast to be £4.1m. The gap between the RF and the bridge reconstruction cost is planned to be funded by affordable borrowing over a minimum of 15 years. The 40p cash toll proposed is assessed as sufficient to cover this period also.
- l) Assuming a cash toll of 40p for Class 1 vehicles the average toll required after the discounts referred to in f) above rises from 25p in 2010 to 30p in the period after reconstruction, based on current information and assumptions. Importantly this allows the Company to maintain substantial discounts to regular users. These discounts will be set at not less than 50% initially and in the period up to 2012, and will be maintained at not less than 25% at any time thereafter.
- m) The Company considered in its Toll Application an alternative cash toll of 30 pence, but as the average required toll is also at least 30 pence this would allow for no discounts whatsoever. The Company considers that a cash toll set in units of less than 10 pence is unacceptable from a practical operational point of view, and therefore a cash toll of 40 pence is the next level that can be proposed.
- n) The Company therefore believes that its Application for an increase in tolls to 40p is fully justified and is neither more nor less than is required to carry out its obligations. It requests that this increase is recommended by the Inspector and agreed by the Secretary of State for Transport.

3) CONTEXT – THE OPERATIONS OF THE COMPANY

- a) The Company has a legal obligation to provide and maintain a safe and reliable crossing between Whitchurch-on-Thames in Oxfordshire and Pangbourne in Berkshire. This includes the replacement/reconstruction of the Bridge as and when necessary. These responsibilities are contained and determined by its own Acts – The Whitchurch Bridge Acts of 1792 and 1988 – and The Transport Charges Etc (Miscellaneous Provisions) Act 1954. The Company operates entirely within the framework of this statutory regulation. (ref Appendix A – Legislative Framework)
- b) The current Toll Application, and the terms of reference of this Inquiry, therefore fall entirely within the context of this legislation, and all considerations extraneous to the terms of this legislation are not relevant. Questions regarding the principle of a tolled bridge or its adoption by the County Highway Authority do not fall within the scope of the Inquiry. Equally the Inquiry cannot recommend the removal of tolls since this would deprive the Company of its income.

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- c) The operation of Whitchurch Bridge is in effect a fully regulated operation which continues to provide a safe and reliable crossing over the Thames at Whitchurch, as it has done since 1792 and plans to do for the next 120 years
- d) The Company must have adequate revenue to enable it to fulfil its statutory obligations. Its principal source of revenue is from tolls. This Application is made in order to ensure that the Company has sufficient toll income to enable it to carry out its responsibilities.
- e) The original purpose of the bridge was to provide a crossing which would be of significant benefit to the local community. Its history since 1792 shows a continuation of this purpose into the 21st century. Its current use is predominantly for local traffic, and in recognition of this the Company gives significant discounts on the cash toll for regular users.
- f) The Bridge and its appurtenances are also a significant asset to the local environment of Whitchurch, standing as they do in a conservation area and the historic environment of the Thames embankment. In recognition of this the current bridge is designated as a Grade 2 listed structure, and therefore it needs to be reconstructed in accordance with such listing requirements. It is a key part of the Company's plans to maintain both the convenience of a safe and effective crossing together with the benefit of an attractive structure that is as close as possible to the appearance of the existing bridge (ref Appendix B – Bridge Utility and the Local Community).
- g) The Company pays particular attention to communications and to the maintenance of good relations with the local community. It maintains a comprehensive website which is the prime source of information about the Company, and meets on a regular basis with representatives of the local Parish Councils (ref Appendix C – Communications)
- h) Over the last 15 years the operational management of the Company has been progressively improved to reach a high degree of efficiency, with the use of axle counters to track crossing volumes, the widespread use of bridge cards and automated barriers to ease traffic flow, CCTV cameras to counter evasion, and Key Performance Indicators to provide management control (ref Appendix D – Operations Management)

4) REASONS – THE REQUIREMENT TO RECONSTRUCT THE BRIDGE

- a) Professional engineering advice by Oxfordshire County Council Bridges Department demonstrates the need for the current steel bridge built in 1902 to be reconstructed by 2015 (ref Document 1 Toll Application Appendix 1 and Appendix G – Bridge Reconstruction Project)
- b) The Company takes professional advice on the management of the bridge structure as part of its risk management strategy, and for the last 15 years has been advised by the Oxfordshire County Council Bridges Department (OCC). The recommended forward plan since 1993 has consistently been based on a proposal for reconstruction of the bridge in approximately 2013 - 2014.
- c) This plan has now been taken forward in considerable detail, with full architectural drawings and detailed costings based on engineering advice. As a result of this high degree of detailed planning, combined with the substantial increases in construction costs over the years, the total cost of the reconstruction at £3.22m has escalated very substantially beyond that estimated at the time of the last toll application in 2004 (ref Appendix H – Reconstruction Cost History 2004-2009).
- d) In addition to the major project of planning for the reconstruction or replacement of the bridge, the toll revenue also has to be applied to routine and periodic maintenance. This is managed in accordance with a schedule agreed with the Company's professional advisers – OCC – based on an assessment of the management of risk and long term benefits (ref Document 6 – OCC Special Inspection Report

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March 2008, Appendix F – Bridge Risk Management and Appendix E – Bridge Maintenance Management). Safety is clearly the major priority for the Company.

- e) The Company collects extensive data on the volume of traffic crossing the bridge, which gives excellent information on trends over the last 10 years. The Application shows these trend lines (ref Document 1 - Toll Application Appendix 3), which demonstrate a slow downward trend in volume; this is forecast to continue at a reduction of about 0.6% per year. This analysis shows clearly therefore that only increases in tolls per vehicle can produce the revenue required to meet the obligations of the Company. In this Toll Application the required average level of toll to meet these obligations is assessed at 30p per vehicle, which gives an average toll income over the period 2011 – 2020 of £466,000 per year (ref Document 1 – Toll Application Appendix 5 and Appendix L – Financial Management)
- f) The Company manages its financial affairs with a high degree of management control and effectiveness in order to ensure that the income available is used to the optimum degree necessary to achieve the key objective of maintaining a safe and reliable crossing. The Company uses its own funding model developed over many years to take account of:
 - i) forecast toll income (volumes multiplied by a mix of cash tolls and discounted tolls)
 - ii) expenditure - in particular operating costs, administrative costs, repair and maintenance costs, investment in the Reserve Fund for reconstruction, dividends to shareholders
 - iii) investment income from the Reserve Fund
- g) Thus full attention is paid to the building up of the Reserve Fund for the reconstruction of the bridge, cost controls, financial management in budgeting and forecasting, and investment management so that all aspects are optimised in difficult economic circumstances.
- h) This funding model is used to assess the level of toll charges necessary to operate and maintain the bridge and to accumulate a Reserve Fund of sufficient size to reconstruct the Bridge – in this case in 2013 - 14 (ref Appendix L - Financial Management).
- i) The Reserve Fund (RF) is required for the maintenance and eventual reconstruction or replacement of the bridge. The RF currently stands at £1.4m, and the target for 2013 is £2.9m.
- j) Income to the RF is derived from both toll income (toll operating income after operating and administrative costs) and investment income from the RF itself. The portfolio has been managed prudently and cautiously and has performed well despite the current market volatility (ref Appendix M – Investment Management).
- k) However, there is a shortfall of £2m between the projected value of the RF in 2013 at current toll levels and the estimated cost of reconstruction of the bridge in 2013 (£4.1m) owing to the sharply increased costs of reconstruction over the last 5 years.
- l) Therefore the RF needs to be built up as rapidly as possible over the 5 years 2009 - 2013 and the gap financed by affordable loan finance repayable prospectively over 15 years.
- m) The Company has calculated very carefully the balance of loan finance compared with total cost, and the calculations have optimised this in order to ensure a consistent level of tolls from 2009 through to 2029. This meets fully the requirement in the legislation that the level of tolls shall be no more and no less than is required to meet the requirements of the Company over this period (ref Appendix L – Financial Management) Despite the shortfall in the RF these documents show the need for a cash toll of no more and no less than 40p over this period.

- n) The legislation which governs the Company's operations finally allows for a reasonable return to the shareholders on the value of their investment in the Company. This value can be defined on a consistent basis from the present valuation in the Company's balance sheet through the period of reconstruction, which will be partially financed by loan, to the projected value in 20 years' time in 2029. In respect of this value the historic, current, and planned dividends paid represent a 2.3% return on investment (return on net assets) – a return which is significantly below the level experienced and expected in other regulated industries (ref Appendix M – Dividend Management). Dividends may only be paid from toll income.
- o) The Company has considered and rejected a number of alternative options which have been put forward for the reconstruction of the bridge
 - i) Delaying reconstruction – this makes very little difference to the economics of the operation , and increases the risk to an unacceptable level from an engineering and safety perspective (Ref Appendix G – Bridge Reconstruction)
 - ii) Lower weight limits – the reconstructed bridge is being designed to current standards as advised by our engineers and required by Highway Standards. We have asked them to consider alternative options; however, these make little difference to the cost or to the requirement for reconstruction (Ref Appendix G – Bridge Reconstruction)
 - iii) Alternative financing options – we have already optimised the balance between forecast loan financing and equity funding, as demonstrated in our references under paragraph (m) above. The Company has no indication that any alternatives are available from eg. Local Authorities. This application is therefore consistent with the obligations on the Company in the Acts and the assessments the Company has made (Ref Appendix L – Financial Management)

5) CONCLUSION – THE REQUIRED LEVEL OF TOLL CHARGES

- a) The average toll level, which is derived from the Company's analysis and financial modelling, and taking into account the expected scenario of cash and discounted toll levels, has resulted in the Toll Application in 2008 for a cash toll of 40 pence per vehicle.
- b) This cash toll allows the Company to reconstruct the bridge, discharging its obligations in this respect, and also to maintain a significant discount for Bridge Cards for the benefit of regular users of the bridge. The average toll required rises from 25p in 2010 to 30p in the period after reconstruction, showing that a cash toll any lower than 40p would provide no scope whatsoever for such discounts, which would be both contrary to the Company's policy on discounts, which give operational benefits to the business, and contrary to the interests of regular users, in that it would require a very significant and immediate rise in the discounted toll.
- c) The toll requested is therefore neither more nor less than that required for the Company to fulfil its obligations enacted in the legislation.
- d) Therefore for all the reasons above the Company's assessment is that the requested cash toll of 40p is fully justified.