

**PUBLIC INQUIRY INTO THE
APPLICATION TO INCREASE THE TOLLS AT WHITCHURCH BRIDGE**

**TO BE HELD ON 2nd/3rd JUNE 2009 AT
THE ELEPHANT HOTEL, PANGBOURNE, READING RG8 7AR**

Witness statement by Michael Beckley

1. My name is Michael Beckley. I am a Fellow of the Chartered Institute of Certified Accountants, with more than 40 years of experience in finance and financial management. I am Chairman of the Committee of Management of the Company of Proprietors of Whitchurch Bridge.
2. I have been associated with the Whitchurch Bridge Company for more than 30 years, and am familiar with the history and background of the Company. In my professional capacity I have assisted the Company with its financial management, including the development of forecasting models to enable the Company to plan its financial requirements under different assumptions, and therefore to determine the level of tolls required in order to meet the statutory requirement that the annual revenue of the Company should not be 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 as defined in Section 2 of the Whitchurch Bridge Act 1988
3. At the time of the last Toll Application in 2004 (Ref: Document 7 - Toll Application 1 July 2004, Appendix 3) the assumptions made in the forecasting model indicated that this required level of toll income was approximately £240,000 per year, which resulted from a traffic volume of 1.89m crossings per year and a cash toll of 20p per Class 1 vehicle plus discounted charges for bridge card users, giving an average toll per vehicle of 12.8 pence. This was based on a reconstruction cost estimate for the bridge of £972,000 as at May 2004. We estimated at the time that this cost might increase to £1.3m by 2009 – 2010, which was the earliest date that we contemplated the reconstruction might take place, but even allowing for contingencies that this would be more than covered by the investments available in the reserve fund, which were expected to increase to £1.5m by the same date.
4. Now, five years on, our operational results are close or above that forecast (Ref: Document 1 – Toll Application 31st October 2008, Appendix 5). We expect that toll income in the current year will be about £284,000, based on a volume of traffic that has fallen by 6% to 1.77m but on an average toll per vehicle of 16 pence as a result of graduated annual increases in the discounted toll. Operating costs are below forecast, and retained profit and cash flow are substantially better than the 2004 forecast. Despite the effects of the financial crisis, the value of our investments has risen to £1.4m as a result of prudent and astute financial management in conjunction with our investment advisors, even though we have spent £0.2m on preliminary work for the reconstruction project. We are running the operation to the optimum degree of efficiency, assisted by the operation of the semi automated bridge card system and by the systems of management controls that we have put in place.
5. However one critical assumption is completely different: as a result of a detailed examination of the engineering requirements combined with exceptional increases in construction costs the estimated cost of reconstruction has leapt to £3.22m at October 2008 prices, or to £4.1m by 2013 – 2014, which we are advised is the latest date by which we should plan for the work to take place. (Ref Toll Application 31st October 2008

Appendices 1 and 2 and Statement of Reasons Appendix H). On the best estimates of results from the present level of tolls the maximum that the investment fund will rise to by 2013 – 2014 is £2.1m. (Ref: Toll Application 31st October 2008 Appendix 5) Therefore instead of a small surplus we are faced with a funding gap of approximately £2m, and that is the essential context of this current toll application. This gap cannot be funded from the existing level of tolls.

6. Naturally, we have as managers of the Company closely examined the estimates put forward by our engineering consultants to establish the basis for this change, and the relevant issues are addressed in the witness statement by Mr Brain. As a result of intensive discussions on this topic over the last two years, we are convinced firstly, that reconstruction in 2013-2014 is necessary for the maintenance of our obligations to maintain a safe passage for pedestrians and vehicles across the river between Pangbourne and Whitchurch; secondly, that the scheme put forward by the engineers is an appropriate and reasonable proposal that meets the objectives that we have agreed with them; and thirdly that the cost estimates now before us are sufficiently detailed and supported for us to be confident in presenting them to this inquiry.
7. Therefore the remaining question that requires to be addressed from a financial management point of view in the context of our statutory requirements as a regulated undertaking is how to manage the gap of £2m. The proposal that we have included in the toll application spreads this cost over a period of 20 years, by seeking an immediate increase in the cash toll to 40 pence, which will enable us to build the investment funds up to £2.9m by 2013-2014, and by financing the balance by loans of £1.2m, which with interest requires repayments of £132,000 per year over the next 15 years (Ref: Statement of Reasons Appendix L)
8. In assessing this requirement we have taken into account a number of factors that will influence the outcome, including the expected volume of traffic crossing the bridge, the rate of inflation as it affects both our operating costs and the costs of reconstruction, the expected return on our investments, the expected cost of loan finance, and the reasonable return on investment to our shareholders. These assumptions are detailed in the scenarios that accompany the Toll Application.
9. These assumptions result in a requirement for a toll income that averages £460,000 per year over the next 20 years, which will enable the Company to meet all its obligations including the cost of reconstruction. This can be achieved by an average toll per vehicle that rises from the present level to approximately 30 pence by 2013, and under present assumptions can be sustained at that level for the following 15 years (Ref: Statement of Reasons Appendix L).
10. In considering the level of tolls for the current application, we took the view that we wished to continue to operate a discounted toll for regular users, both as a benefit to the local community and for reasons of operational efficiency and effectiveness. It therefore followed that in order to achieve the required average of 30 pence the cash toll would need to be higher than 30p. We considered that a cash toll of 35p, requiring at least 3 coins to be presented, would be operationally difficult, and that the proposed level of 40 pence for the cash toll would enable us to implement a graduated increase in the discounted rate to a level of approximately 20 pence by 2013. This approach is in line with our long standing policy. As noted in Mr Weir's evidence, discounted bridge cards already account for approximately 50% of uses and we would anticipate that this will increase to 55 – 60% as a result of this approach. We want to encourage this trend, which is in line with many discussions that we have had with representatives of the local community who tell us that they want to see a continuation of this benefit. It is clear by contrast that, in order to achieve the required average toll level, a lower cash toll would automatically require a correspondingly lower discount and therefore a greater increase in cost to our regular users.

11. In consideration of the fact that this proposal covers a period of 20 years, it is inevitable that there is a significant number of assumptions involved, and these together with their sensitivity effects have been detailed in the statements provided to this inquiry (Ref: Statement of Reasons Appendix L). We believe that these assumptions are reasonable, however we understand that bridge users require a degree of confidence that they will not have to face excessive increases if assumptions change and we as a Company are prepared to undertake that if the proposed cash toll of 40 pence is approved then we will maintain a discount of at least 50% for the period up to 2012, and that at all times we will maintain a discount for regular users of at least 25%.
12. Therefore we submit that in the particular context of the costs that the Company must necessarily incur for the maintenance and reconstruction of the Bridge at Whitchurch the proposal that has been made for a cash toll per Class 1 vehicle of 40 pence will result in an annual revenue of the Company that will not be 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 as defined in Section 2 of the Whitchurch Bridge Act 1988

Michael Beckley, MA, FCCA
15th May 2009