

HALTON BOROUGH COUNCIL



*Municipal Building,
Kingsway,
Widnes.
WA8 7QF*

14 October 2011

**TO: MEMBERS OF THE HALTON
BOROUGH COUNCIL**

You are hereby summoned to attend an Ordinary Meeting of the Halton Borough Council to be held in the Council Chamber, Runcorn Town Hall on Wednesday, 19 October 2011 commencing at 6.30 p.m.. for the purpose of considering and passing such resolution(s) as may be deemed necessary or desirable in respect of the matters mentioned in the Agenda.

A handwritten signature in black ink, appearing to read 'David W R'.

Chief Executive

-AGENDA-

f) Mersey Gateway Project Budget (Minute MGEB 6 refers)

The Mersey Gateway Executive Board considered the attached report:-

RESOLVED: That

- (1) the revised budget for Development Costs up to Financial Close when a public private partnership is in place be approved;
- (2) the requested land acquisition capital expenditure budget be approved;
- (3) that Council amend the Capital Programme accordingly; and
- (4) the potential impact on the Council's revenue budget to cover the costs that are not capitalised, be noted.

REPORT TO: Mersey Gateway Executive Board

DATE: 22nd September 2011

REPORTING OFFICER: Chief Executive

SUBJECT: Mersey Gateway: Project Budget

WARDS: All

1.0 PURPOSE OF THE REPORT

- 1.1 This report advises the Board of the current budget position relating to the Mersey Gateway Project. The Project budget is split into two distinct areas:
- 1.2 The development cost budget for delivering the Mersey Gateway through the Procurement phase of the project up to Financial Close when a contract will be in place with the private sector (the Project Company) to design, build, finance and operate the project. The information updates the forecasts made in the development budget approved by the Executive Board on 25th September 2008 and the information on budget monitoring reported to the MG Executive Board since then. A revised forecast for this period is outlined in table 2.
- 1.3 The report also provides a summary of the expenditure incurred in relation to land acquisition to the end of quarter one 2011-12 together with the current estimate for the expenditure to be incurred under various activities.

2.0 RECOMMENDATION: That the Board

- i) **approve the revised budget for Development Costs up to Financial Close when a public private partnership is in place.**
- ii) **approve the requested land acquisition capital expenditure budget**
- iii) **recommend that the Council amend the Capital Programme accordingly; and**
- iv) **note the potential impact on the Council revenue budget to cover costs that are not capitalised.**

3.0 SUPPORTING INFORMATION

3.1 Mersey Gateway Development Budget

3.1.1 The funding agreement with the Department for Transport (DfT) established when Mersey Gateway received Programme Entry approval in March 2006, specifies that the Council is responsible for meeting all development costs up to receiving Final Funding approval for the project. The funding agreement with Ministers is being administered by the rules for delivering local major transport schemes.

3.1.2 Originally, the Council contributions were expected to be Capital in nature. However, there is an ongoing debate in terms of what the Audit Commission is content to accept as Capital expenditure. As a result, a proportion of the development budget cannot be treated as Capital and must be accounted for as Revenue expenditure instead. This could partially effect the way the Council is able to utilise prudential borrowing as a funding mechanism. Discussions are ongoing in this matter and the assessments undertaken so far indicate that revenue is unlikely to exceed 20 per cent of the total development budget with the remainder being treated as capital expenditure.

3.1.3 The Project Team have experienced a significant cost pressures since 2010:

- The Project Team expected the Mersey Gateway to receive the necessary planning and funding approvals early in 2010 after a successful Public Inquiry. Unfortunately, the economic crisis and subsequent Spending Review meant that the project programme suffered from a lengthy delay.
- The situation has been exacerbated even further due to Government requests for information on various aspects of the project. The Project Team were obliged to undertake a significant amount of further research, studies, etc in order to satisfy these queries. This included revisions and further testing of the traffic model, revisions to the business case and a value engineering exercise. The tasks associated with these requests were not part of the original budget forecast and required the continued mobilisation of a large project team.
- The Secretary of State has asked that the project costs are reduced which includes moving to open road tolling operation from the outset. Other changes are proposed that overall reduce cost by at least £30m. To deliver these changes alterations to the original approved planning applications are required. This additional work was not part of the original budget forecast.

3.1.4 The tables below highlight the budget which had previously been agreed and confirms the budget which will be required in order to progress the Project through the Procurement phase and up to Financial Close.

	Total	Contributions	HBC
2006-07	3.6	3.5	0.1
2007-08	4.9	0	4.9
2008-09	6.7	3	3.7
2009-10	4.8	0	4.8
2010-11	2	0	2
Jan 11- Oct 13	12.4	3.4	9
Total	34.4	9.9	24.5

Table 1 – Budget Profile for Development Costs

HBC Core Costs	£1,535,921
Design & Construction Working Group	£1,780,000.00
Procurement Process	£2,170,000.00
Operation & Maintenance Working Group	£1,320,000.00
Commercial Working Group	£1,065,000.00
Contract Drafting Working Group	£870,000.00
Procurement Steering Group	£190,000.00
Planning Application & Consultation	£540,000
Spend (Jan 2011 - July 2011)	£2,899,241
	£12,370,162

Table 2 – Proposed Budget Allocation

3.1.5 The Project Team had allocated an original budget of £9.1m with a further allowance for contingency of £2.276m. The original programme on which this forecast was based extended from January 2011 until April 2013. Due to the delay in the Project receiving the final funding decision, the programme has slipped by approximately six months. The development budget will need to be extended accordingly. Since January, the Project Team have only progressed those tasks which

have been absolutely critical in terms of the Project remaining on track or have been at the request of Government departments.

- 3.1.6 The Council has received an initial funding offer from the DfT which confirms the commitment to contribute a further £3.4m to the development costs. The Board should note that the funding for this contribution forms part of the £86m capped grant.

3.2 Land Acquisition Budget

- 3.2.1 The planning decisions made by the Secretaries of State on 20th December 2010 have now triggered the next stage in the land assembly process. The progress made in assembling the land required for the project is reported separately but the Council has commenced the exercise of the relevant compulsory purchase powers enabled by the Compulsory Purchase Orders and the made Order under the Transport and Work Act 1992. These powers allow the Council to acquire the remaining land which is necessary for the Project.
- 3.2.2 The Council has served the preliminary notices in the CPO process on the parties affected by these Orders in two stages, as follows. Those land/business owners affected under the CPOs have been served with the official notice regarding the compulsory purchase of their land interest.
- 3.2.3 The Council has an obligation to pay either 90% of its estimate of the compensation due or 100% of the agreed compensation within three months of any request for an Advance Payment. It is expected that most parties will submit such claims, however there are likely, given the number of parties, that agreement will not be reached regarding market values and disturbance payments and will be referred to Lands Tribunal to be resolved. This process may mean that payments are still being made after the land acquisition has been physically completed.
- 3.2.4 Within the budget forecasts for the advance works there is a large contingency, as the actual value of work will only become apparent once the sites have been acquired and the initial ground investigation surveys undertaken.
- 3.2.5 The Land Acquisition budget has been set at £86m, and has not been increased since being originally agreed. This budget is expected to cover the principle elements of:
- Acquisition of the land required, including disturbance payments, SDLT and fees

- Property management, including demolition of buildings prior to handover to the Concessionaire
- Advance works, including ground investigations and remediation of contaminated sites
- Section 10 Claims, as outlined above
- Part One Claims, as outlined above

3.2.6 Land assembly costs are funded by the 'land grant' from DfT; any gap between receipt of funding from DfT and payment to land owners will be funded from the Council's reserves and/or borrowing. Further information is available in the draft Outline Business Case (Financial Case).

3.2.7 Land Acquisition Budget: The table below provides a summary of the expenditure incurred to the end of quarter one 2011-12 together with the current estimate for the expenditure to be incurred under the various activities as described above on an annual basis.

Mersey Gateway - Land Acquisition Budget (Actual and Forecast)
(£000's)

	Current Estimate (2011)	Actual Expenditure to 30-06-2011						Grand Total
			2011-12	2012-13	2013-14	2014-17	Post 2017	
			Total	Total				
Advance Agreement	£ 27,707	£ 19,683	£ 4,163	£ 1,807	£ 1,600	£ 455		£ 27,708
GVD No.1	£ 2,766	£ 21	£ 2,330	£ 414				£ 2,766
GVD No.2	£ 5,055	£ 15	£ 2,443	£ 21	£ 2,108	£ 467		£ 5,055
GVD Phase I	£ 5,371	£ 71	£ 4,441	£ 577		£ 285		£ 5,374
GVD Phase II	£ 7,437	£ 66	£ 4,209	£ 3,042	£ 122			£ 7,439
GVD Phase III	£ 1,073	£ 170	£ 452	£ 249	£ 203			£ 1,073
Total	£ 49,409	£ 20,026	£ 18,039	£ 6,110	£ 4,033	£ 1,206		£ 49,414
Contingency	£ 9,882			£ 5,928	£ 1,779	£ 2,174		£ 9,882
Section 10 Claims	£ 1,457					£ 1,093	364	£ 1,457
Internal Fees	£ 3,925	£ 593	£ 675	£ 1,100	£ 176	£ 990	391	£ 3,925
Part One Claims	£ 3,500						3500	£ 3,500
Property Management	£ 1,000		£ 375	£ 575	£ 50			£ 1,000
VAT	£ 1,125		£ 435	£ 460	£ 140	£ 90		£ 1,125
Land Acquisition Total	£ 70,298	£ 20,619	£ 19,524	£ 14,174	£ 6,177	£ 5,553	£ 4,255	£ 70,303
Advanced Works								
Fees	£ 1,785	£ 41	£ 487	£ 648	£ 609			£ 1,785
Utilities	£ 1,950	£ 3	£ 1,700	£ 248				£ 1,950
Remediation	£ 11,865		£ 5,015	£ 6,319	£ 531			£ 11,865
Advanced Works Total	£ 15,600	£ 43	£ 7,202	£ 7,215	£ 1,140			£ 15,600
Grand Total	£ 85,898	£ 20,662	£ 28,702	£ 21,389	£ 7,317	£ 5,553	£ 4,255	£ 85,903

4.0 POLICY IMPLICATIONS

4.1 The project is a key priority for the Council which will deliver benefits locally and across the wider region.

5.0 OTHER IMPLICATIONS

5.1 Not Applicable

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children and Young People in Halton

There will be an indirect contribution to contribute to Key Objective E: To ensure that all children and young people in Halton have positive futures after school by embracing life-long learning, employment opportunities and enjoying a positive standard of living.

6.2 Employment, Learning and Skills in Halton

There will be an indirect contribution to Key Objective B: To develop a culture where learning is valued and to raise skill levels throughout the adult population and in the local workforce.

6.3 A Healthy Halton

There will be opportunities for biodiversity activities to contribute to Key Objective C: To promote a healthy living environment and lifestyles to protect the health of the public, sustain individual good health and well-being, and help prevent and efficiently manage illness.

6.4 A Safer Halton

There will be opportunities to contribute to Key Objective C: To create and sustain better neighbourhoods that are well designed, well built, well maintained, safe and valued by the people who live in them, reflecting the priorities of residents.

6.5 Halton's Urban Renewal

There will be opportunities to contribute to Key Objective E: To enhance, promote and celebrate the quality of the built and natural environment in Halton. Tackling the legacy of contamination and dereliction to further improve the Borough's image. In particular, in Area of Focus 12, examples of future planned activity include "Creating local nature reserves and wild spaces that support the Council's efforts to deliver urban renewal and a better quality of life in Halton". The Mersey Gateway nature reserve will be a main delivery mechanism for this Area of Focus.

7.0 RISK ANALYSIS

- 7.1 The ongoing discussions with the District Auditor could result in a greater proportion of the development costs being treated as revenue than currently assumed in the financial plan. This would restrict the use of prudential borrowing to only the capital proportion of the expenditure and this change would put pressure on Council reserves and revenue budgets. Plans to mitigate this risk are in place. .

8.0 EQUALITY AND DIVERSITY ISSUES

- 8.1 Mersey Gateway provides an opportunity to improve accessibility to services, education and employment for all.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

- 9.1 Files maintained by the Mersey Gateway Project Team and by the Highways and Transportation Department.

Report to: Council – 19th October, 2011

Reporting Officer: Chief Executive

Wards: All

Mersey Gateway Funding Offer from Government
Addendum to item 11(f)

Purpose of the Report

On the 12th October, 2011, the Council received from the DfT/Treasury a Conditional Funding Offer for the Mersey Gateway Project.

The offer sets out the Government's contribution to the whole-life costs of the Mersey Gateway Project.

This report and the attachments to this report provide Members with the details of the offer from Government.

Recommendations

- 1. That the Council accepts the Conditional Funding Offer from Government in the form received.**
- 2. That the Council supports the further development of the Mersey Gateway Project on the basis of**
 - (a) the Conditional Funding Offer; and**
 - (b) the information set out in this report and the attachments to this report,**
- 3. That the Council and its Officers take all reasonable steps to maximise toll discounts for residents of Halton.**
- 4. That the Council delegate to the Chief Executive in consultation with the Leader of the Council, the Portfolio Holder for Resources and the Portfolio Holder for Transportation the power to take all reasonable steps necessary to achieve the delivery of the Mersey Gateway Project.**

Supporting Information

The general progress on the Mersey Gateway Project is described in the papers to the Mersey Gateway Executive Board Sub Committee on 22nd September, 2011 (contained within the Council Summons). In addition a revised version of the PART 2 Item – Progress Towards Obtaining Conditional Funding Approval From Government is attached to this report

The proposed project timetable is contained within the PowerPoint presentation attached to this report.

Over the last 18 months Officers have been negotiating with the DfT and Treasury to secure a fair funding package from Government. The Conditional Funding Offer attached to this report is the result of this negotiation and represents the Government's final offer to the Council. Members will note it presents an increase on the preliminary funding approval offered by Government in March 2006.

The funding offer enables the Mersey Gateway Project to progress to the next stage of its development.

The funding offer also provides the opportunity to deliver discounts on tolls for local residents who use the river crossing frequently. Officers are developing a business case that seeks to achieve a viable business case for Mersey Gateway and at the same time maximises toll discounts for this group of users. Further work will be undertaken over the coming months should Members accept the Conditional Funding Offer submitted by Government.

Attachments:

The Conditional Funding Offer letter from the DfT

A revised version of the PART 2 Item – Progress Towards Obtaining Conditional Funding Approval from Government (redacted to protect commercially sensitive information)

Copy of a PowerPoint presentation from the Mersey Gateway Team

REPORT TO: Mersey Gateway Executive Board

DATE: 22 September 2011

REPORTING OFFICER: Chief Executive

SUBJECT: Mersey Gateway – Progress
Towards Obtaining Conditional
Funding Approval from Government.
(Redacted for Publication)

WARDS: All

1.0 PURPOSE OF THE REPORT

1.1 Since the project received government support in the Comprehensive Spending Review, announced in October 2010, the Mersey Gateway project team has been preparing an Outline Business Case for the project which meets the requirements of the Department for Transport. This report provides a summary of the final draft OBC which is expected to be cleared by the Secretary of State for Transport, subject to the approval of HMT officials who are reviewing the final draft OBC report during September. Members will recall from previous reports that the formal approval of the OBC together with the government's confirmation of a detailed funding agreement will lead to the project receiving Conditional Funding Approval, allowing the Council to commencement the procurement process. The recommendations in this report deal with key decisions that will advise government that the draft proposals in the OBC and the draft funding conditions are acceptable to the Council.

2.0 RECOMMENDATION: That the Mersey Gateway Executive Board

- (1) Note and agree the proposed draft funding support with conditions as proposed by the Department for Transport; and**
- (2) Note and agree the proposals in the OBC**

The project resources and budget estimated to be required to reach the start of construction is reported separately.

3.0 SUPPORTING INFORMATION

3.1 The draft OBC is attached at annex 1 (commercial in confidence and hence not published in the report to Council of 19th October).. This is now a long and complex document with several annexes and following information is intended to provide a high level executive summary of this complete draft document.

- 3.2 The format of the OBC follows the standard requirements of the DfT, and comprises the following main sections:-

The Strategic Case

- 3.3 The Strategic Case demonstrates that the scheme is consistent with, and will contribute to local, regional, and national objectives in transport and other key policy areas. The high priority given to Mersey Gateway across the sub-region reflects that the project has a close fit with regional and local policy objectives. The approval in the Comprehensive Spending review last year acknowledged the benefits that Mersey Gateway would bring to the delivery of the coalition government priorities. At a more forensic level the decision to grant the statutory powers (planning approval etc) last December confirmed that:-

“the Secretary of State considers that a clear need has been established for a new road crossing of the Mersey in this location in order to relieve congestion on the SJB and to address the adverse transportation, environmental, social and economic consequences of the existing situation. Furthermore, he is satisfied that the Project represents the most appropriate means of meeting that need, taking into account national and local planning, transport and environmental policies and the exhaustive consideration of alternatives undertaken by the Promoter “

- 3.4 The Strategic Case remains very strong and reaffirms the longstanding acceptance that Mersey Gateway would deliver widespread benefits that are a priority for national government and for the regional and local community.

The Value for Money Case (including traffic forecasts)

- 3.5 The Value for Money Case has proved to be resilient against the impact of the lower growth assumptions. The economic downturn has prompted the DfT to revise its national and local traffic forecasts reflecting the absence of traffic growth in general terms across the national road network since 2009. These revised traffic forecasts take the form of TEMPRO 6.2 underlying economic growth and development assumptions that were required to be applied for all scheme appraisal cases considered after April 2011. The traffic forecasts in the draft OBC are based on TEMPRO 6.2 parameters.
- 3.6 The work required by DfT officials has been extensive and has put pressure on resources and project budgets. Although the additional analysis has revealed a relationship between the level of toll charges and the value for money forecast, the base case, where toll levels are similar to those applying at Mersey Tunnels, delivers robust economic benefits that are over twice the net project costs, placing the project in the DfT ‘High’ value for money category.

3.7 The Board should note the impact of the revised traffic appraisal guidance on all of the crossings of the Mersey between the Mersey Tunnels to the M6 motorway at Thelwall, including the combined flow on SJB and MG, as shown in the table below. The figures in brackets are for the earlier forecasts.

Summary of Average Weekday traffic (1000s)

2015	All Crossings	Combined Flow SJB+MG
Without Project	410 (455)	85 (94)
With Project	393 (443)	60 (74)
2030		
Without Project	476 (483)	98 (97)
With Project	470 (488)	86 (95)

3.8 Prior to 2008, average weekday traffic flows on the SJB were typically 84-85000 per day. Since 2008 there has been a decline, most noticeable in 2009, to a figure closer to 80000 per day currently – a reduction of about 5%. Most of this reduction has occurred in off-peak periods with peak flows experiencing reductions of 2-3%. The last few years have provided evidence of the relationship between economic downturn and traffic using SJB. Although growth has halted and traffic flows are slightly reduced the demand for the SJB crossing remains high and, given the difference between peak and inter-peak changes over the recent economically difficult times, suggests that business and commuting trips are more resilient to changes in travel cost than the model forecasts might suggest.

3.9 The revised forecasts still show SJB being relieved of over 80% of its traffic. The revised forecasts are now assumed throughout the draft OBC including the toll revenue predictions used in the funding considerations (see Financial Case below).

The Delivery Case

3.10 The Delivery Case explains how the Council intends to deliver the scheme to time and within budget and includes the project programme, the governance arrangements, the plans for stakeholder involvement and robust risk management plans. The new work takes into account the changes now proposed in the procurement strategy (see Commercial Case) and how this will impact on the Council organisation required to oversee the construction and operating phase of the project. Again, the progress made in agreeing the revised procurement approach with DfT officials allows the Delivery Case to be updated and submitted in the final draft OBC.

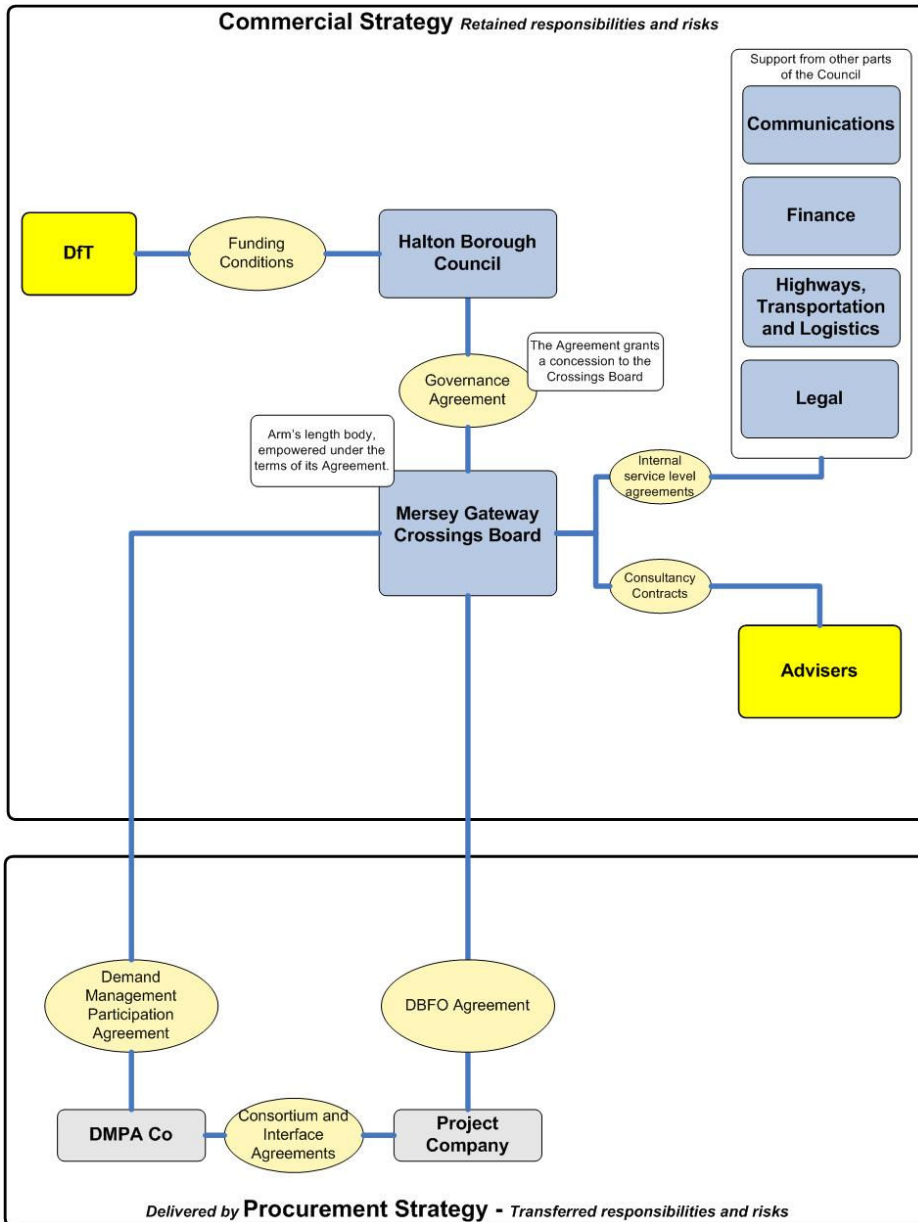
- 3.11 The delivery of this complex project through procurement requires careful and robust preparation ensuring that sufficient resources are available to bring about a satisfactory outcome. The unusual expertise and competence required in the project team can only be delivered through consultancy commissions and these commissions are in place. But these support services will require expert direction and the 'core team' should be providing this direction. A review of resources in the core team revealed heavy reliance on the Project Director during the competitive dialogue process. The proposed solution is to appoint a Commercial Director to support the Project Director by leading the commercial and contract negotiations and directing the financial and legal advisers. In due course the terms of the Commercial Director appointment will be presented to the Executive Sub Committee for approval but a candidate is currently working on an interim basis pending the formal arrangements being agreed. It is likely that officers will recommend that the Commercial Director takes some risk in the project delivery and that any agreement should cover the post procurement phase to assist the Council in managing the transition when most of the project team will depart as the project moves into construction. This succession planning is a necessary part of the OBC and the role of the Commercial Director is explained in this regard.
- 3.12 The project programme is based on Conditional Approval being announced in mid October releasing the Council to publish the Contract Notice in the OJEU at the end of October. The procurement process is planned to be completed in time for construction to commence at the end of 2013.

The Commercial Case

- 3.13 The Commercial Case now includes a sound procurement strategy and a rigorous approach to the private sector involvement. As already reported to Members the procurement strategy has been reviewed to assess the validity of assumptions relating to market conditions that have been affected by the financial crisis since 2008/9. The aim of the current work is to ensure that the project finance arrangement benefit from the full value of the tolling revenue expected to be received. The project team has reached a consensus view with procurement and finance experts at the DfT that transferring the risk of uncertain toll revenue to the private sector would not deliver best value in the current project finance market. An alternative procurement structure has been developed in consultation with the DfT that is designed to deliver the new crossing at best value, in whole life terms, along with robust arrangements for delivering a modern toll service alongside managing toll revenue risk in the public sector.
- 3.14 Consequently the revised structure means that more risk would be retained by the Council than would be the case in the original proposal where substantive cost and revenue risk would have been taken by the private sector partner – referred to previously as the Concessionaire. In return for taking toll revenue risk the Council can keep toll levels down by

avoiding a higher cost of finance that would apply if the private sector took this risk and the Council, in consultation with our partners, has more control over the setting of toll levels to support the delivery the wider project objectives. To ensure that the management of toll revenue risk is successful, the Council would need to be supported by a robust organisation with appropriate empowerment and responsibilities

- 3.15 The project team however still sees considerable opportunity in working with the private sector partner to ensure Mersey Gateway delivers a modern toll service which is designed to mitigate toll revenue risks, where operation can be alive to future development thereby driving continuous efficiency and best value. There is evidence that toll operations in the public sector become static arrangements often deprived of development potential. Most of the toll roads across Europe and the developed world are run by the private sector often under public sector client control. The revised contract structure is designed to harness private sector expertise across the integration of a Design Build Finance and Operate contract for the new crossing and toll operations for the new bridge and for SJB. The potential bidding groups interested in the Mersey Gateway contract all contain the competence and experience we would require to deliver this integrated service.
- 3.16 The demands placed in the Council in managing the construction and operation of Mersey Gateway will be considerable, again requiring expertise that the Council does not have in the current organisation. The DfT has recognised this in its scrutiny of the emerging OBC proposals. To address these concerns the project team has proposed that the Council responsibilities and risks are managed by a separate entity called the Mersey Gateway Crossing Board, operating under a Governance Agreement with the Council. To convince the DfT that the MGCB would be empowered with the authority required to run a successful toll crossing business the OBC includes draft Heads of Terms for establishing the MGCB. Consequently the arrangements for establishing the MGCB are well advanced and the DfT now see this proposal as being a condition of its funding support (see draft funding conditions below).
- 3.17 The contract structure including the MGCB and the public private partnership arrangements are shown in the diagram below;-



3.18 Key commercial responsibilities of the Crossing Board will include:

- Management of cash flow between toll income and the unitary charge payments to the Project Company and DMPA payments;
- Setting tolls within agreed limits (see Funding Conditions below)
- Setting toll strategy and policy and responding to commercial conditions. This is likely to incorporate responsibility for defining the cash flow available to support discounts and the administration and monitoring thereof;
- Monitoring the performance of the Project Company and administration/reconciliation of payments to the payment mechanism

- Support from the private sector via the Demand Management Participation Agreement (DMPA Co in the above diagram).

The Financial Case

3.19 The Financial Case has demonstrated that the scheme is based on sound costings and revenue forecasts and has determined the funding requirements that together forms the Council Conditional Funding Approval bid. Since the completion of the Inquiry all the project costs have been reviewed and new estimates produced. The revised cost estimates take on board all the commitments given to third party interests leading up to the Inquiry which have either changed the project scope or increased cost for other reasons. The project funding arrangements cover whole life costs over a thirty year period and require a view to be taken on the likely maintenance and operating costs over this period alongside the average inflation rates expected.

3.20 The funding discussions with the DfT included a requirement for the Council to investigate where cost could be reduced. The DfT had challenged all local transport projects in the priority pool to reduce costs and Ministers expect this to deliver results. This was a difficult task for Mersey Gateway because the scheme had been defined in the planning approvals and made Orders, limiting the scope available to reduce costs without repeating the planning process. Also the programme had slipped around 18months resulting in potentially higher inflation allowance.

3.21 The project team has however identified where cost savings are deliverable and the scheme presented for Conditional Funding Approval includes the following cost saving measures;-

1. removal of provision of LRT from Main Crossing (the long term plan would be to use SJB for public transport including potential light rail services)
2. reinstatement of Halton Lea Slip Roads on Central Expressway
3. adopting Open Road Tolling
4. changes to standards on the Main Crossing and Approaches
5. value Engineering at Lodge Lane Junction (retaining the Busway Bridge)

3.31 In outturn terms these measures reduce the estimated construction cost by approximately £33m but and this has prevented the cost increase that would have arisen due to inflation and the impact of undertakings given at the Inquiry. A summary of the changes in estimated cost for the construction and land costs only, compared with the cost estimates produced for the Inquiry (reported to MGEB on 21 July 2008), are shown in Table 1 below.

Construction Costs	£m	
	Pre-Inquiry Estimate 2008	Conditional Fund Bid 2011
Construction capital cost (January 2007 prices)	431	399
Estimated inflation to outturn prices	87	110.
Land and Advanced Works	86	86.
TOTAL PROJECT COST UP TO ROAD OPENING	604	595

Table 1: Projection of Project Cost in Outturn Terms (exc VAT)

3.32 The above measures to reduce project cost are important but the overall funding requirement is also influenced by the estimated operating and maintenance costs over the thirty year contract term and the cost of financing the project. The project team has reviewed the financial model that includes all these costs and has managed to reduce the overall funding requirement by approximately 8 percent. This result was presented by the Chief Executive to the Secretary of State at a meeting on 7th July and the cost control has been a major factor in making progress towards securing Conditional Funding approval.

3.33 The Council specification is intended to provide maximum opportunity for the private sector to innovate. A design guide is close to completion which explains the site constraints alongside the requirements of the Council and other third parties, including regulating authorities. The Council, as the Local Planning Authority, will also be called upon to consider submissions under the Planning Conditions that are in place to control the approved development and were issued as part of the planning approval announced in December. The project team are looking to provide bidders with a clear understanding of how the Council will assess the Planning Condition submissions. To assist this a planning officer has been seconded to the project team but it is important that the development control decision remains independent to the promotion of Mersey Gateway. In addition to the consideration of Planning Condition submissions the amendments to the scheme listed in paragraph 3.21 above require additional Planning Applications. The pre-application consultation process for these further Planning Applications is due to take place at the end of September. Presentations to relevant Area Forums are included in the consultation process.

3.34 The Financial Case includes the draft funding contribution we have agreed with DfT officials in consultation with the Secretary of State. The proposed funding package comprises a capped capital grant (Section 31 Grant) of £86m which will cover the acquisition of land (including compensation and fees) and advanced works and surveys, plus the agreed contribution from the DfT towards the preparation costs (£6.4m); and a revenue grant that is payable of up to £14.55m per year for each of the 26 years of the operating term in the DBFO contract. Members will

note that the revenue grant is higher than the £9m per annum agreed in 2006 at Programme Entry stage and the higher amount compensates for the reduction in toll revenue now forecast due to the lower traffic levels expected to use the combined bridges. The draft funding proposals are to be subject to conditions and the Council view on the proposed draft conditions is required to support the final consideration of the Conditional Funding approval bid. The draft funding are explained at Appendix 2 (Not included as superseded by the Funding Letter provided to Council)

3.35 The Board should in particular note that these conditions would have the following impact/

- 1) The Council would be responsible for any overspend in the land assemble and advanced works budget should costs exceed £86m (see separate budget report which puts the current estimate including contingency at just below £86m). The DfT are also looking to fund their contribution (£6.4m) to preparation costs (referred to in 3.34) out of the total £86m but we have requested that this is separated from the capped grant.
- 2) The DfT may not proceed with the project if the DBFO contract cost exceed those in the current Financial model. In this event we have requested payment of part of the £86m where the cause of the cost increase is outside the control of the Council but this has not yet been accepted.
- 3) The DfT would reduce the revenue grant should the cost of the DBFO contract be delivered at a lower cost but the savings would be shared 30/70 in favour of the DfT.
- 4) After five years of operation (and repeated every five years), should traffic using the bridge exceed that forecast in the base case, the revenue grant would be reduced to reflect the higher toll revenue share than expected in the base case financial model. We have asked to retain the same 30 percent of the 'surplus' revenue but this has not yet been accepted (see Funding Letter which offers the Council a 15% share).
- 5) The DfT have allowed the Council to use 10 percent of the toll revenue for discount purposes and for funding sustainable transport measures. This would be increase should actual toll revenue exceed the base case forecasts providing we are successful in securing a 30 percent share of this surplus revenue (point 4). Otherwise the amount available for discount schemes etc. would be capped at 10 percent.

3.46 An oral up date on the draft funding conditions will be given at the meeting.

- 3.47 The funding contribution and draft conditions are based on toll charges currently applying at the Mersey Tunnels and the project team has developed a commercial framework that is designed to make this toll revenue go as far as possible towards contributing to the total cost of the project. By ensuring that economic arrangements are also in place to deliver the DBFO contract at minimum cost the Council will have more scope to satisfy these conditions at Financial Close. The draft OBC is design to achieve this aim.
- 3.48 The draft funding offer from the DfT is based on toll revenues we would collect from traffic levels at the new forecasts reported in the table at para. 3.7 above. (ie opening year flow on combined crossings forecast to be 60,000 vehicles in an average working day). To safeguard the project from the unlikely risk that traffic flows are lower than this forecast the project cost could be further reduced by the Council providing a proportion of the project finance through prudential borrowing. By using prudential borrowing the cost of finance would be reduced and the repayment options would be more flexible than would be the case if all the debt was met by private finance. The draft OBC is based on the Council providing £120m of the project finance through prudential borrowing as this makes sense given it reduces cost and the Council has more flexible repayment options.

4.0 POLICY IMPLICATIONS

- 4.1 The project is a key priority for the Council which will deliver benefits locally and across the wider region.

5.0 OTHER IMPLICATIONS

- 5.1 All substantive implications are reported above and in the report annex.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children and Young People in Halton

Mersey Gateway provides an opportunity to improve accessibility to services, education and employment for all.

6.2 Employment, Learning and Skills in Halton

See above

6.3 A Healthy Halton

Mersey Gateway provides an opportunity to improve accessibility to services, education and employment for all, including improved cycling and walking facilities.

6.4 A Safer Halton

Mersey Gateway is forecast to deliver road safety benefits for vehicles and facilitate safer conditions for walking and cycling in the borough

6.5 Halton's Urban Renewal

Mersey Gateway is a priority project in the urban renewal programme.

7.0 RISK ANALYSIS

7.1 The results of the Market Engagement will help to reduce overall project risk and improve value for money and delivery.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 Mersey Gateway provides an opportunity to improve accessibility to services, education and employment for all.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

9.1 None under the meaning of the Act

Appendix 1 (Not included in Report to Council of 19th October 2011 as Report is commercially sensitive. Redacted OBC to be published at end of October

Appendix 2

(Not included in the Report to Council 19th October as superseded by draft Funding Letter of 13 October 2011)

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Transport

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14 October 2011

Dear David

MERSEY GATEWAY BRIDGE PROJECT

I am pleased to inform you that Ministers have now agreed to award Conditional Approval to the Mersey Gateway Bridge Project. This letter sets out the conditions which must be satisfied following Conditional Approval and the wider funding conditions for the project.

Please provide written confirmation that Halton Borough Council agrees to these terms and conditions including certification from your section 151 officer that the Council accepts the requirements set out in this document.

This Funding Offer, subject to the conditions set out below, comprises:

1. **Development Cost Grant** of up to £86m payable (including preparatory, land and remediation costs)
2. **Availability Support Grant** of a maximum of £14.55m per annum for 26.5 years following full service commencement under the proposed DBFO agreement.

This Funding Offer is made on the conditions below and is based on the Outline Business Case submitted to the Department in February 2011, as revised in September 2011 and agreed with HM Treasury. Ministers reserve the right to re-consider this Funding Offer if there are any significant changes to the scheme and/or if a complete Full Business case (FBC) has not been submitted for approval by 30 October 2014.

The Funding Offer is conditional on

- (i) Halton Borough Council implementing a process to monitor the ongoing costs of the project (including preparatory, land and remediation costs) and report the results of this to the Department on a regular basis. To the extent that Halton Borough Council becomes aware of a potential shortfall in funding available to deliver the project that you notify the Department immediately setting out how you propose to remedy the shortfall. The Secretary of State reserves the right to make no further payments under this Funding Offer if such a notification is made and is not remedied.

- (ii) Approval by the Department and HM Treasury of a Final Business Case in accordance with DfT/HM Treasury guidance that applies at the time.
- (iii) The unitary charge of the scheme does not exceed that set out in the September 2011 Finalised Outline Business Case (section 8.6, taking into account any changes in the unitary charge profile).
- (iv) Sufficient private finance being raised at financial close on reasonable market terms.
- (v) The use of a public works contract procurement route remaining value for money at the point of Full Approval.

In relation to the **Development Cost Grant:**

- (vi) The £86m Development Cost Grant will be payable as set out below.
 - a. £3.0m already paid
 - b. £1.7m at Conditional Approval (October 2011)
 - c. a maximum of £10m in 2013/14 subject to the scheme having received full approval unless otherwise determined pursuant to the review referred to in (x) below
 - d. a further £71.3m available from April 2014 subject to having received full approval unless otherwise determined pursuant to the review referred to in (x) below
- (vii) Development Cost Grant will be paid in accordance with normal DfT grant rules and be limited to net costs necessarily incurred directly by Halton Borough Council in the connection with the development of the Scheme.
- (viii) To the extent that actual eligible costs incurred, net of any actual or potential cost recovery, are less than £86m in total then the total Development Cost Grant will be the lower amount.
- (ix) Halton Borough Council is responsible for seeking to minimise Development Costs incurred and any development costs above the maximum Development Cost Grant are at Halton Borough Council's own risk.
- (x) In the event that the scheme becomes undeliverable before Full Approval is confirmed, DfT would review the situation jointly with Halton Borough Council at that time but with no explicit obligation on our part.

In relation to the **Availability Support Grant:**

- (xi) The Department, HM Treasury and Halton Borough Council acknowledge that the project is not a PFI, but recognise that the principles set out in the Department for Communities and Local Government Local Government PFI Project Support Guide 2009-10, 1st Revision (September 2009), available on DCLG's website will apply to the project unless otherwise agreed. In particular, you are reminded of the requirements on the use of standardised PFI contract documentation (SoPCv4) and on sharing documentation. The standardised PFI contract documentation (SoPCv4) will be the starting point for the DBFO agreement, but the Department, HM Treasury and Halton Borough Council will seek to agree prior to the commencement of procurement a flexible procedure for agreeing any derogations from this documentation that may be required. It is also a requirement that a finalised outline business case (OBC) is published on the promoter's website

- (redacting any sensitive information) and we would expect this to occur by the end of October 2011. At financial close you should also provide the Department with a copy of the project agreements and the financial model.
- (xii) A recalculation of the scheme funding requirements will be performed by Halton Borough Council immediately following Financial Close to reduce permanently the maximum Availability Support Grant for 70% of project savings emerging prior to Financial Close, and confirmed at Financial Close in comparison with the base case unitary charge in the Outline Business Case on a like for like basis. The Availability Support Grant can not exceed the £14.55m noted in (2) above. [Covered in “Application for Final Approval” section.]
 - (xiii) Should the DBFO undergo refinancing, any gains for the Authority will need to be shared with the Department in a manner to be agreed at the time and to a value equal to 50% of the value of the refinancing gain to the Authority. The option as to the manner of sharing chosen by the Department and Halton Borough Council will be based on Value for Money considerations.
 - (xiv) A Crossing Board being established and empowered as set out in Draft in Appendix 7-B of the Outline Business Case and operating with key actions as set out in this agreement. The Crossings Board will establish, prior to the introduction of charges, a Liquidity Reserve holding cash or cash equivalent assets to a minimum value of 20% of the net revenues forecast for the following 12 months from the Crossings.
 - (xv) The Liquidity Reserve should be held separately from the other assets of the Crossings Board and used solely to manage unexpected deviations in revenues and costs for the Crossings Board from the prevailing forecasts at that time, and in accordance with its objectives as set out in Appendix 7-B. It will be for the Council and Crossings Board to decide how this reserve will be established and funded prior to scheme opening and they will need to satisfy the Department that this is robust and in place before scheme opening
 - (xvi) The actual amount of Availability Support Grant will be adjusted periodically, subject always to the maximum amount calculated in (xii) above, in line with the Review procedures described below.

Availability Support Grant Review Procedures

- (xvii) There will be specified Review Points following full service commencement of the project where the Mersey Gateway Crossings Board and DfT will consider the financial performance of the Board since the last Review Point (or in the case of the first Review Point, since the commencement of full service) and agree forecasts for the revenues and costs of the Crossings Board for the period to the next Review Period (or in the case of the last Review Point, for the period to the end of the concession period). The first Review Point will be on the 5th anniversary of full service commencement with subsequent review points every 3 years thereafter until the end of the period during which Availability Support Grant is payable.
- (xviii) The review of performance for the next period will consider revenue levels achieved in the preceding years, future economic and transport forecasts and other issues that will impact on revenues as agreed between the

- parties. In the event that revenues for the next period cannot be agreed, then the average of the annual revenues since the last Review Point will be used as the forecast revenues for each year during the next period.
- (xix) To the extent that actual net revenues in the period since the last Review Point have exceeded the amount assumed in setting the Availability Support Grant for that period (or in the case of the first Review Point the revenues expected in the outline business case), after allowing for discounts (subject to these not exceeding 10% of the revenue that would have been earned in the absence of any discount regime) but before any deductions for revenue leakage then this will be an Actual Excess.
- (xx) To the extent that actual net revenues in the period since the last Review Point are lower than the amount assumed in setting the Availability Support Grant for that period (or in the case of the first Review Point the revenues expected in the outline business case), after allowing for discounts (subject to these not exceeding 10% of the revenue that would have been earned in the absence of any discount regime) but before any deductions for revenue leakage then this will be an Actual Deficit.
- (xxi) If forecast revenues, after taking into consideration any monies for discounts (subject to these not exceeding 10% of the revenue that would have been earned in the absence of any discount regime) and maintaining the liquidity reserve at the required amount, but before any deductions for revenue leakage, exceed those used at the Outline Business Case Stage then this will be a Forecast Excess.
- (xxii) If forecast revenues, after taking into consideration any monies for discounts (subject to these not exceeding 10% of the revenue that would have been earned in the absence of any discount regime) and maintaining the liquidity reserve at the required amount, but before any deductions for revenue leakage, are lower than those used at the Outline Business Case Stage then this will be a Forecast Deficit.
- (xxiii) The maximum Availability Support Grant set out in (xii) above for the years to the next Review Point will be:
- a. reduced by 85% of any Forecast Excess and 85% of any Actual Excess; and
 - b. increased by 85% of any Forecast Deficit and 85% of any Actual Deficit,
- where such amounts exist.
- (xxiv) The Availability Support Grant payable in any year cannot exceed the amount calculated in (xii) above. To the extent that an increase to the Availability Support Grant under (xxiii)(b) cannot be made as this would result in an Availability Support Grant that exceeds the amount calculated in (xii) above, then any unrecovered increase will be taken into account before any reduction of the Availability Support Grant is made in accordance with (xxiii) above on a subsequent Review Point.
- (xxv) For the avoidance of doubt discounts refers to all discounts given to local residents and regular users of the bridge, including all vehicle types.

Demand Management Participation Agreement

- (xxvi) The Department recognises that Halton Borough Council wishes to explore the possibility of putting in place a Demand Management Participation Agreement (“DMPA”) and Halton Borough Council will explore this during the dialogue phase of the procurement.
- (xxvii) The Department wishes to assess the benefits of such an approach based on the information gained during the procurement and agree jointly with Halton Borough Council whether such an approach will be beneficial. The decision on whether to go ahead with the DMPA will need to be made before the end of dialogue and as part of the submission of the IFBC to the DfT and the Treasury Approval Point Panel.
- (xxviii) To the extent that a DMPA or similar is put in place it will be necessary to reflect any savings in unitary charge levels in accordance with (xii) above and revenue forecasts made at the Review Points will need to be net of any revenue share due to the DMPA party under that arrangement.

Future Tolls and Charges

- (xxix) At any date prior to the date being the later of
 - (a) the end of the Availability Support Grant payment period; or
 - (b) repayment in full of any Mersey Gateway Crossings Board borrowingno commitments shall be made by Halton Borough Council or the Crossings Board as to whether tolls/charges will or will not continue after these dates and/or at what level.
- (xxx) At a point 3 years before the later of (a) or (b) above the Crossings Board, HBC and DfT will jointly assess the benefits of continuing with tolling in the light of the economic and transport network needs of the region, the overall context relating to road charging, and also considering any legal constraints and the prevailing legal position at that time.
- (xxxi) If tolling/charges continue then DfT would expect to share in the net financial benefits either directly in terms of direct payments to DfT or through reduced contributions to other local or regional transport schemes and initiatives as agreed with the Secretary of State schemes with the initial assumption that surpluses would be shared 70/30 in favour of Government.

Mersey Gateway Crossings Board

- (xxxii) The Governance arrangements of the Mersey Gateway Crossings Board will be agreed with the Secretary of State and cannot be amended without the specific agreement of the Secretary of State. Draft Heads of Terms / Governance Arrangements are detailed within Appendix 7-B of the Outline Business Case and fully detailed arrangements must be in place and agreed by the Secretary of State before Full Approval;
- (xxxiii) The Secretary of State reserves the right to withdrawal funding if further amendments to Governance arrangements are made without his consent;
- (xxxiv) The Board should have an independent capability to carry out it's main tasks and should not solely rely upon Halton Borough Council and / or it's officers;
- (xxxv) As a minimum the Crossings Board will be required to:
 - Increase average weighted tolls/charges annually by RPI;
 - Have the ability to decide independently to increase average weighted tolls/charges by as much as 20% (in real terms) above the toll/charging levels set out in the Outline Business Case during the life of the concession(subject to the limits set out in the Scheme Orders) to take into account revenue shortfalls and overall finances of the Crossings Board;
 - Act in a transparent and open book manner;
 - Ensure financial stability of the Crossings Board.
- (xxxvi) It will be for the Crossings Board to establish and implement their actual discounts policy, in accordance with the Crossings Board governance arrangements.

Other Requirements

- (xxxvii) That the Department's Commercial & Technical Services (CTS) will be invited to attend the Mersey Gateway Bridge Project Board meetings to support the successful delivery of the project and to monitor its progress;
- (xxxviii) That you keep us closely informed on the progress of this scheme, complete the Department's three monthly monitoring forms by the due date and provide such information as the Department may reasonably require in relation to this Funding Offer;
- (xxxix) That you notify the Department immediately in the event of any significant changes to the scope, design or expected benefits of the scheme;
- (xl) The Department will use best endeavours to ensure that all necessary regulations to permit open road tolling to be implemented on the Mersey Gateway and Silver Jubilee Bridges from the scheduled full service commencement date will be in force by October 2012 but your procurement process should still allow for a switch to plaza tolling if for any reason the required orders/ regulations are not in place by this date. If this occurs the Department and Halton Borough Council will jointly review the situation.

Application for Full Approval

An application for Full Approval (Full Business Case) should be submitted to the Department following completion of the tender process and should include:-

- (i) a brief report of the tender exercise with details of the preferred bidders Best and Final Offer;
- (ii) a revised estimated total scheme cost in light of the prices bid during the procurement process;
- (iii) a report on the private financing of the project and confirmation from your advisors that the final proposal represents value for money in the context of prevailing market conditions;
- (iv) updated assessment of the value for money of the procurement route chosen;
- (v) your confirmation that the broad scope and design of the scheme remains unaltered, with details of any substantive changes resulting from the detailed design and procurement process;
- (vi) confirmation by the authority's Section 151 officer that a Gateway 3 Review has been completed and the necessary remedial action has been taken in respect of any 'Red' recommendations;
- (vii) an agreed approach to monitoring and evaluation of the scheme, the scope of which will be subject to the Department's agreement prior to submission of the Full Business Case and funded by the promoter.
- (viii) an assessment of the Social and Distributional Impacts of the scheme in accordance with DfT guidance as it stands at the time of the Full Approval application. The results of this assessment will be considered by Ministers as part of Full Approval consideration. You will be expected to show that you have made reasonable efforts to mitigate any significant negative impacts associated with the scheme.
- (ix) an up to date risk register and project plan with milestones;
- (x) an up to date mobilisation and operational management plan; and
- (xi) your confirmation that you take full responsibility to bear any further increases in cost following Full Approval;
- (xii) your plans for the tolling structure for the crossing including how discounts will be applied including requirements to consider value for money; and
- (xiii) confirmation of the detailed Governance Structures, policies and constitution of the Mersey Gateway Crossings Board.

In addition to those areas outlined above, the Full Business Case should also specifically highlight those areas where there have been changes from the Outline Business Case

This letter is without prejudice to any other consent that may be required, for example, in connection with planning legislation.

Procedures

Please keep in touch with us about the progress of your project during procurement.

You must inform us immediately if you wish to change aspects of the project in any material way from the case agreed, in particular the scope or the timetable. If changes are required to any of these aspects of the project you will need to obtain the Department's written agreement in good time before the contract is signed. Subject to the protocol to be agreed pursuant to (xi), written consent may also be needed to any significant derogations from the standard contract conditions. Failure to obtain any of these could potentially mean withdrawal of support for the project, and would invalidate any

undertaking by the Department to support your scheme. We hope our involvements in the Project Board during the procurement phase will help keep us up to date with progress.

You should be aware that the project is subject to further review by the Treasury Approval Point Panel at two points in the future; firstly at the end of the dialogue phase and then when you are seeking full approval.

This will require the submission of an **interim final business case** (IFBC) at least four weeks prior to the close of dialogue. The IFBC should comprise of a Full Business Case detailing progress from the OBC submission, financing terms and noting where there have been changes. Subject to the protocol to be agreed pursuant to (xi), the IFBC approval submission may need to include a full list of the derogations proposed by the authority and each of the remaining bidders and will require endorsement by the Department and HM Treasury before the project can proceed to close dialogue.

The Full Business Case itself will also be subject to review by the Department and the Treasury Approval Point Panel before a full approval letter is issued.

In good time prior to the submission of the Interim and Final Business Case, please seek further guidance from the Department as to what the exact requirements are.

The full approval letter will provide details of how and when Availability Support Grant can be claimed. Your Authority will need to ensure that funds are available to cover that part of the payments to the contractor which will not be met by central Government. You will be eligible for Availability Support Grant on full service commencement under the DBFO agreement.

Availability Support Grant is not intended to match or correlate directly to the payments that arise under the DBFO contract. However, the Government is committed to supporting good projects and to assisting the development of such projects in the local authority sector. Its policy is therefore to maintain revenue for such projects in the long term, consistent with the long-term nature of these contracts, even though formally such support cannot be guaranteed.

The main Departmental contact point for this scheme will continue to be Charlie Sunderland although the Department's CTS (Nick Joyce/Colin Goodwillie) will be able to help if any specific technical advice is required on the procurement process.

We look forward to continuing to work with you on this project.

Yours sincerely



Mostaque Ahmed

DRAFT

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The DfT Conditional Funding Offer

Funding Stages

1. Preliminary Funding Approval (March 2006)

Capital Grant = £86m

Revenue Grant = £9.5m per year

(equiv to £123m PFI Credits)

2. Conditional Funding Offer (October 2011)

Capital Grant = £86m

Revenue Grant = £14.55m per year from opening
for 26.5 years

(Total Cash contribution circa £470m)

The Basis of the Funding Package

The Outline Business Case has been approved by DfT and HM Treasury.

This scrutiny has put in place

1. Funding Commitments;
2. Resource Commitments; and
3. Organisation Requirements

All required to enable the project to commence procurement leading to construction commencing within two years.

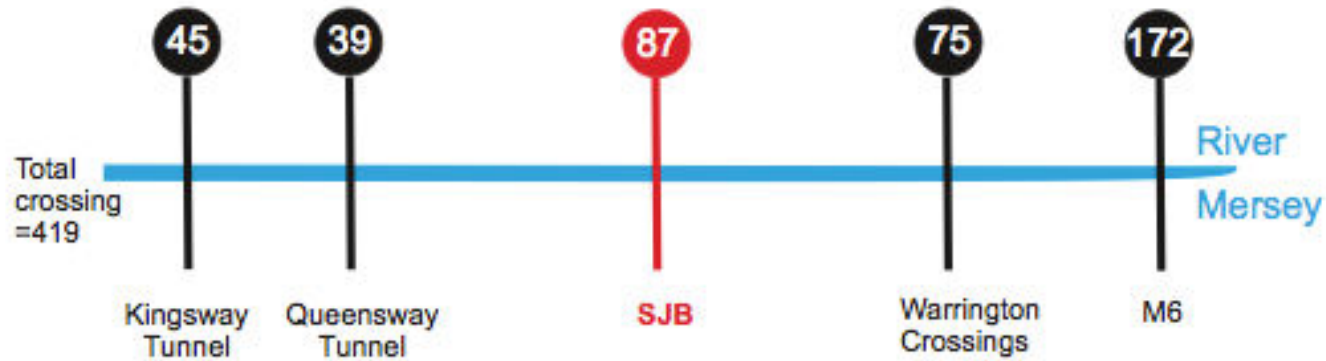
These measures and proposals are now defined in the Conditions of the DfT Funding Offer, which the Council has been asked to accept.

Conditional funding approval from government – the Conditions

1. Savings on reducing the revenue grant to be shared between DfT and HBC (if traffic using the crossings is higher than forecast then DfT grant is reduced and HBC has more revenue for toll discounts/transport).
2. Revenue grant to be reviewed regularly (after five years and then every three years).
3. £86m grant is capped (no change).
4. HBC can use up to 10% of toll revenue for discount purposes
5. HBC takes the Toll Revenue Risk

Traffic Diagram of alternative River Mersey crossings – 2017 – Same toll level as Mersey tunnels

Without Mersey Gateway:



With Mersey Gateway:

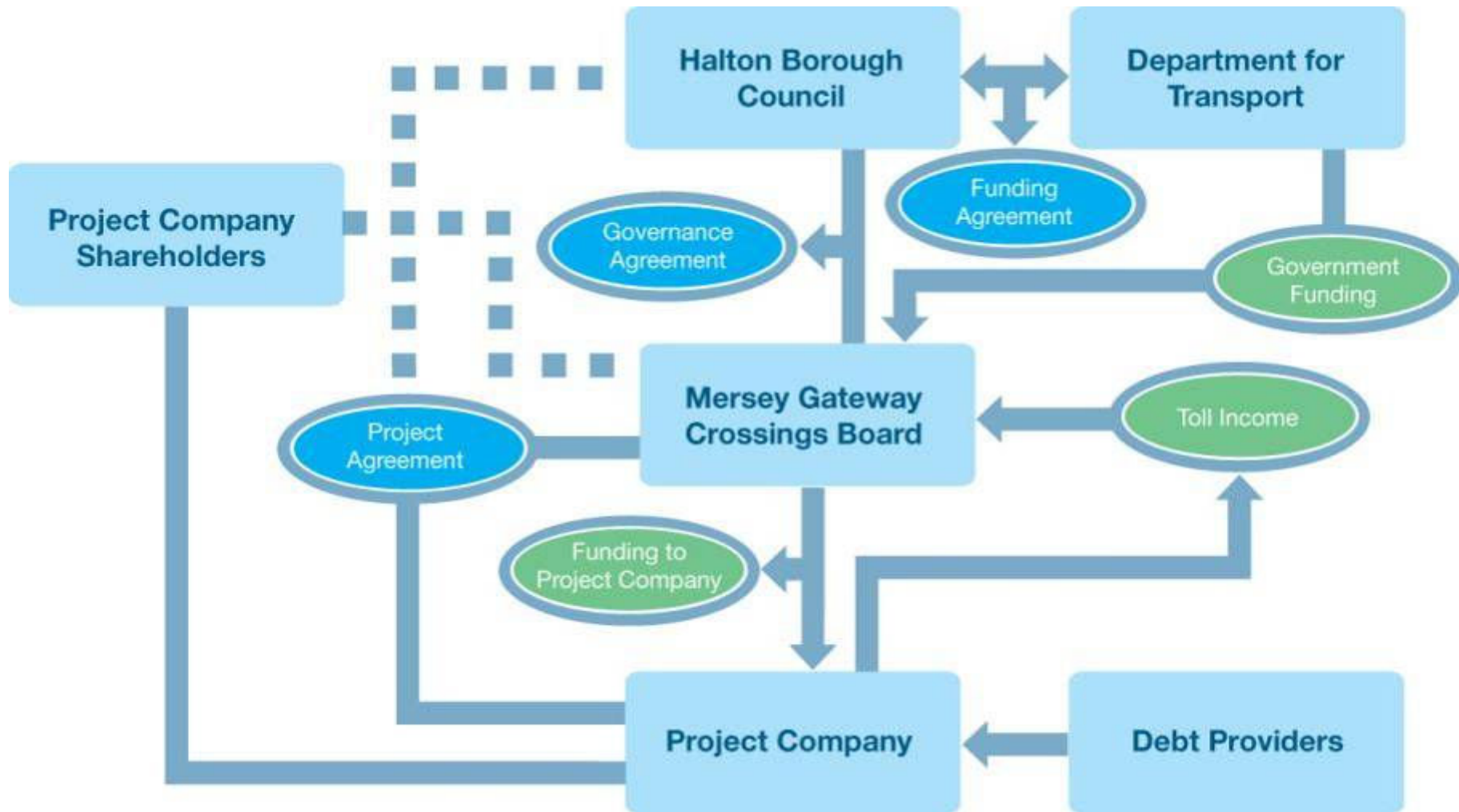


Notes:

i. Traffic flows are vehicles/average weekday in 2017 (000's), rounded to nearest 1000

06-07-2011

Governance structure



Mersey Gateway Crossings Board – key responsibilities

- Working Under the Direction of HBC (a Governance Agreement would be established)
- Management of cash flow
- Setting tolling levels, strategy and policy under delegated arrangements
- Monitoring the performance of the project company
- Administration of payments
- Manage Funding Agreement with Government
- Would maintain cash reserve of circa £8m

Mersey Gateway Project Company – key responsibilities

- Complete the Design
- Secure Private Finance
- Construct the Scheme
- Maintain infrastructure and Operate Tolling Service for 26 years
- Meet Service Specification in Return for Annual Payments (Unitary Charge)
- Provide Tolling Advice to Board (plus potential investment in the DMPA)

Conditional funding approval from government – the Conditions

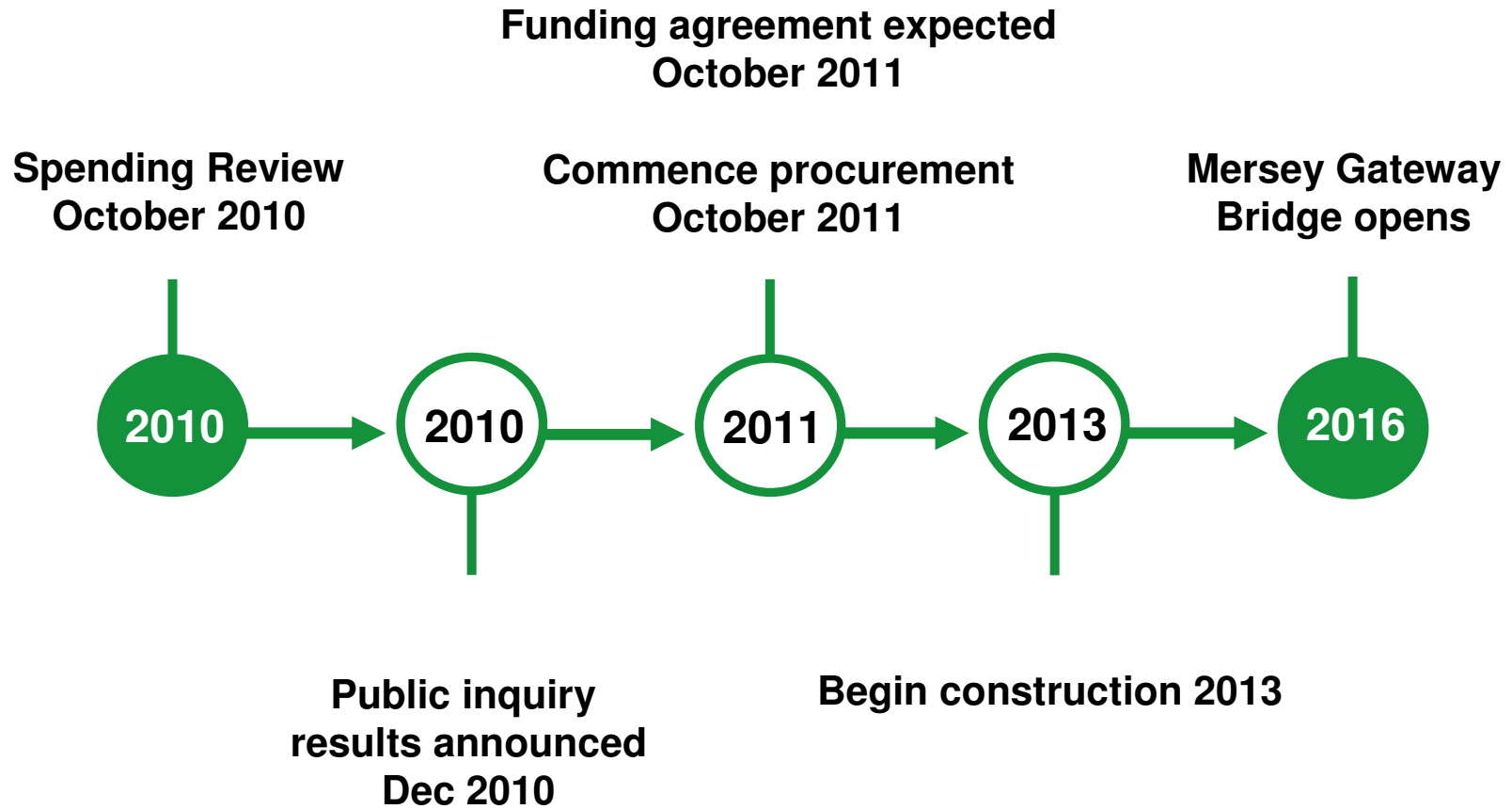
6. If we get obtain lower prices than our OBC estimate then gain shared 30/70 (in favour of DfT) .
7. If we get more traffic than base case then extra toll revenue shared 15/85 (in favour of DfT) .
8. After all project debt has been repaid then DfT and HBC to agree if tolls to be retained. If not agreed then tolls are removed.
9. If tolling continues after project paid for the revenue would be treated as 70/30 in favour of the Government .

Conditional funding approval from government – the Conditions

10. There are two more HMT/DFT approval stages

- one in December 2012 after completion of the dialogue phase; and
- the Final Funding submission just prior to appointing preferred bidder and driving to financial close in May 2013.

Timetable



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