



Mersey Gateway
**Submission to the
Spending Review**



Introduction

Mersey Gateway is an integrated transport project that will provide the vital infrastructure that is required to deliver sustainable economic growth in Halton and the north-west of England. It will relieve a source of serious congestion in the regional road network by providing a new, high-standard crossing of the river Mersey and by modifying the existing Silver Jubilee Bridge to facilitate local sustainable transport plans. The Project has been developed over many years and now forms an essential component of local and regional social and economic regeneration programmes. The Project is widely supported by businesses and public authorities across the region and is seen as a priority for investment.

This paper represents Halton Borough Council's submission to the Spending Review and to DfT's ongoing work to identify those programmes and activities which will be most effective in achieving the Government's goals.

HM Treasury has set out, in the Spending Review Framework, the criteria against which projects will be appraised as departments seek to prioritise their spending over the next four years. Should funding for Mersey Gateway be confirmed then construction would commence within two years.

This submission provides an executive summary of how the Project meets each of the Spending Review criteria and, further, how Mersey Gateway can be seen as a model for the emerging Government approach to infrastructure investment.

How the Project meets the Spending Review criteria

Is the activity essential to meet Government priorities?

Yes

Sustainable economic growth is vital for the Government in tackling its number one priority – reducing the deficit. Investment in key infrastructure is one of the most effective measures that can be taken towards promoting improved economic productivity.

Mersey Gateway offers just such an investment opportunity. The Project will drive economic growth in one of the most economically deprived parts of the country and is forecast to have a range of economic benefits including improved business efficiency, agglomeration benefits, greater labour accessibility, improved access to markets and trade gateways, and an increase in the region's attractiveness to inward investment (these benefits are described in further detail below in response to question 3).

Does the Government need to fund this activity?

In part, Yes

The key points to be made on the funding package are:

- Government is being asked to provide only a proportion of the total funding for the Project (up to approximately 30%). This Government funding, under the current funding agreement with DfT (agreed in April 2006) envisages a mix of capital and revenue grant. The majority is paid as revenue grant over the operating life of the Project,

commencing in approximately late 2015 / early 2016 (under the current programme). The capital is similarly paid in instalments to fund land acquisition and necessary remediation.

- The remainder will be financed by the private sector and paid by users in tolls, with our local and regional people and businesses being the major contributors towards the cost of the crossing.
- The funding structure reflects the preference prevailing at the time the Project was granted Programme Entry status, but alternative funding arrangements exist and can be explored.
- The funding package when confirmed at final funding approval stage, will represent cost certainty for the Government as it will ensure that the whole-life cost of the Project is financed over a thirty year period, commencing with the start of construction. During this time no further funding would be required to deal with any construction cost overruns, and the maintenance and operation.
- Continuing with the toll charges after the thirty year 'concession period' would result in considerable revenue surplus, similar to the current situation at the M25 Dartford crossings.

Mersey Gateway's funding package offers a model of the role for Government funding which is envisaged in the Government's strategy for sustainable growth.

Government investment in Mersey Gateway is designed to leverage-in private sector investment while ensuring that the Project meets wider socio-economic objectives through a fair tolling regime.

Government investment will enable the Council to keep tolls to a fair and acceptable level and would avoid the risk of tolls becoming a barrier to accessibility leading to reduced Project benefits. By part funding Mersey Gateway, the Government

would optimise the contribution from the private sector without jeopardising the Project objectives. The outcome would be an equitable balance between ensuring that the Project is affordable and successful, leading to a serious bottleneck in the transport system being removed, whilst ensuring the economic and social benefits are achieved.

Does the activity provide substantial economic value?

Yes

Mersey Gateway offers a model for the economic growth driven approach to infrastructure investment which is a key part of the Government's strategy, where investment in infrastructure is widely recognised as having a strong, positive effect on the economy.

The Project is forecast to have a range of economic benefits and to have a positive impact on economic performance as a result of improvements in:

- **Business efficiency:** reducing transport and overall business costs can result in efficiency gains and potential increases in GDP. It is estimated that the total net value of the business-related travel benefits is some £222 million (2002 discounted prices).
- **Business investment and innovation:** supporting higher rates of investment and delivering economies of scale. An indication of the impact that the Project will have can be seen where inward investment has already taken place in the expectation of a new crossing being constructed. The recent investment made by the Stobart Group in the 3MG multi-modal logistics complex is a notable example. 3MG now has 750,000 sq ft of distribution sheds, with outline consent in place for 1.8 million sq ft of new buildings, rising eventually to 3.5 million sq ft of space. Tesco and Norbert Dentressangle have

taken 600,000 sq ft in the newly constructed facilities. The complex has the potential to create 5,000 jobs.

The Silver Jubilee Bridge is a critical infrastructure link for the north west, but it is out dated and under immense pressure on a daily basis. We badly need a new crossing, and I would urge every business that uses the Silver Jubilee Bridge to write to government and show how crucial this new bridge and the associated investment are to our region.

Steve O'Connor,
Managing Director of Stobart Ports

- **Clusters and agglomerations:** agglomeration benefits will result from increased proximity to similar and complementary businesses and to larger labour markets, it is estimated that the Project will result in an increase in GDP of some £67 million over the normal 60-year DfT appraisal period.

Based upon in-depth analysis of where the benefits would fall within the Merseyside region, it is estimated that by 2030 businesses employing around 650,000 workers would see some improvement in their levels of connectivity to other businesses and labour markets. Of these, businesses employing almost 100,000 workers and generating GVA of around £3.2 billion per year would experience significant improvements in connectivity.

- **Labour market:** real and perceived accessibility improvements will enhance the operation of the labour market.

Analysis of the modelled improvements in journey times offset by the increased financial costs associated with the toll, suggests that by 2030 around 750,000 of the economically active

population within the region could potentially benefit from improved access to job opportunities.

Looking at this from a business perspective, the analysis suggests that businesses within the area could see the available pool of labour expand by around 1.7%.

- **Competition – improving access to suppliers and customers:** a survey of Halton based businesses shows that 31% believe that the Project will have a positive or very positive impact on the size of their market.

In line with this, detailed analysis of the transport modelling behind the scheme suggests that around 80% of businesses in the region would see a positive impact on their business-to-business connectivity, with 10% of businesses in the region seeing a substantial improvement in connectivity.

- **Domestic and international trade:** the Project will improve accessibility to major international gateways including Liverpool John Lennon Airport, the ports in Liverpool, Runcorn Docks, and Manchester Airport.



The development of Liverpool SuperPort is transforming the City Region economy, creating over 25,000 jobs and generating £1 billion per annum in GVA. At its heart is not only the development of core port, airport and logistics infrastructure but more importantly the expansion of the SuperPort business community through the growth of existing organisations and new large scale investment into the SuperPort community.

For this transformation to succeed, and the jobs and GVA to be generated, an effective transport system is paramount – especially access for freight and to major roads and rail networks. Critical to this is the development of a new crossing of the River Mersey at Runcorn.

Peter Nears,
Chair Liverpool SuperPort Committee

- **Attractiveness to globally mobile activity:** the Project will improve the attractiveness of regional locations, such as Speke, to globally mobile incoming investment at a time when international trade and investment is of critical importance.

Overall, the economic impact of the Mersey Gateway on GDP is estimated to be £311 million (2002 prices) in present value terms, which is equivalent to £373 million in 2009 prices.

This economic impact is by necessity largely based upon existing DfT transport appraisal guidance which is dominated by the welfare benefits to users of the scheme, rather than an assessment of the extent to which a scheme can unlock economic growth.

These wider economic benefits could be demonstrated by adopting alternative appraisal methods which consider expanded labour markets, enhanced business-to-business connectivity, and crucially, land use change which current transport appraisal guidance does not consider. Experience suggests that the final GVA benefits of the scheme could be significantly higher than the benefits identified under standard appraisal guidance. We have noted that DfT is considering how the economic growth benefits of schemes can be taken into account in prioritising transport spending and believe that Mersey Gateway will perform strongly against any such appraisal regime.

Doing nothing is not an option and nor is continuing to 'sweat the asset'; it will inhibit economic development and accessibility in Halton and the north-west, and will deter the investment that is essential to enable our communities to maximise their opportunities.

There will be real economic costs to continuing to rely on the ageing and below-capacity Silver Jubilee Bridge. Setting aside the ever-present real cost of congestion for a moment, the current poor network resilience means that incidents and accidents on the existing Bridge cause problems across the region with travel delays being caused on the entire regional road network. The economic cost to the north-west of a closure of the existing Bridge has been calculated at £160,000 an hour.

Can the activity be targeted to those most in need?

Yes

Investment in Mersey Gateway will target an area where economic growth is needed most and where congestion is causing problems for people and businesses.

The need

Halton and the wider area, in particular Merseyside, suffer from a number of significant socio-economic difficulties. Between 1998 and 2007, the total number of jobs in Halton decreased by just under 1% to 54,400; whereas regionally and nationally employment increased by more than 9%. The recent economic downturn puts Halton and south Liverpool under extreme social and economic pressure.

There are high levels of long standing deprivation, with Halton being the 30th (out of 354) most deprived local authority district in England, based on the 2007 Indices of Deprivation. Liverpool is the most deprived. The labour market in Halton and the wider area is relatively weak overall, with low earnings, qualifications levels, and economic activity rates; there are high levels of unemployment compared to the regional and national averages.

Many of the Borough's residents experience high levels of deprivation and poverty. Evidence shows that the gap in prosperity between the richest and poorest neighbourhoods is continuing to widen despite the efforts of the Council and its partners. Health inequalities also provide the Borough with significant challenges with all-age mortality one of the worst in the country for both men and women. The Borough also scores badly on most health statistics.

A catalyst for social, economic and environmental regeneration

Mersey Gateway offers a catalyst to the social, economic and environmental regeneration of Halton and the sub-region. The Project will relieve the heavily congested existing Silver Jubilee Bridge, thereby removing a constraint on local and regional development and better provide for local transport needs. There will also be social benefits associated with reducing worklessness, including better health outcomes, higher incomes and reduced levels of crime. The Project will improve accessibility and maximise local development and regional economic growth opportunities. Improved accessibility helps people find and keep work and use health and education facilities.

It will result in short, medium and long-term savings in government expenditure as employment increases, reliance on welfare falls, health improves and economic activity is boosted.

The new crossing will allow the existing Bridge to be restored to its role as the local crossing. The Bridge will be modified to provide much improved facilities for pedestrians and cyclists and to improve public transport links across the river. Improved public transport will bring benefits in areas of deprivation. The Council will encourage the increased use of cycling and walking providing opportunities to improve health and well-being.

Network resilience

The need is not just socio-economic. The Borough and the region need an improvement in network resilience. A recent Bridge closure provides an example of the real consequences of the current poor resilience. The Borough and the region suffered disruption and delay when the Bridge was closed for two hours in the Friday evening peak period while the Police and emergency services dealt with an incident. Setting aside the real economic cost, which we have previously noted, the Council had to deploy its civil emergency response plans; vulnerable disabled children and special-needs adults who were unable to be taken home had to be housed in community centres and schools.

The Highways Agency has recognised the advantages that the Project brings as regards regional network resilience. The Agency has entered into a Memorandum of Understanding with the Council that expresses the Agency's support for the Project as an important addition to the transport network, where the new crossing offers an alternative route in the event of incidents or routine maintenance on the M6 motorway.

How can the activity be provided at lower cost?

The need for additional crossing capacity between Widnes and Runcorn has been recognised since the late 1980s and numerous studies since then have shown that the present proposed crossing is the lowest cost solution to the problem that satisfies the environmental constraints. The route for the new crossing makes efficient use of existing highway capacity on either side of the estuary, creating a 9km long high-standard route between the national motorway network in north Cheshire and Merseyside.

The Council is committed to getting best value in procuring Mersey Gateway and there are a number of strands to the Council's approach.

Procurement strategy

The Council has developed a commercially driven approach to the private sector's role in delivering the Project. The procurement strategy, reflecting the unique revenue-generating nature of the Project, has two strands:

- to procure the new crossing infrastructure and tolling operations at best value through a design build finance and operate contract which transfers whole life cost and service delivery risk to the private sector
- to procure commercial expertise in tolling operations to secure the revenue.

The commercial support component of the procurement is designed to harness the private sector's skills and experience in maximising toll revenue, to support the Council in acting commercially, and to protect the financial interests of the public sector. This component is potentially as important as getting the most economically advantageous bids on capex and opex and will be weighted accordingly.

Output specification

The Council will encourage private sector innovation, and its associated cost benefits, by defining its service requirements on an output basis rather than as prescriptive inputs.

Competitive tension and market interest

The Council has actively engaged with the market to promote the Project, and to understand and foster the level of market interest. As of mid-2010, there is a very high level of market interest with a number of strong bid groups already formed. Bid groups include a number of national and European organisations with a track record of operating toll road concessions, as well as world-class contractors and designers, who can provide the necessary private sector skills and experience.

Timing

An early decision will capitalise on the healthy market interest and attract keen pricing during the procurement process. Indeed, the cost of delaying the Project, and allowing for inflation on capex, means that each month's delay costs up to £2 million.

Silver Jubilee Bridge

The Project offers the opportunity to put in place a long-term, sustainable funding arrangement for routine maintenance of the existing Bridge. DfT has in each of the three financial years 2008/09 to 2010/11 allocated approximately £4.5 million directly to SJB maintenance works. The Council is keen to work with DfT on developing this as part of the funding package. An early approval of the Mersey Gateway would also enable the current maintenance programme for the Bridge to be amended resulting in a saving of at least £7 million. Here it is worth noting that, as a result of the Bridge's criticality to the network, maintenance must be carried out at night or at weekends, significantly increasing the cost. The new crossing will relieve this constraint.

How can the activity be provided more effectively?

The Council's approach to Mersey Gateway represents an effective solution to providing this vital infrastructure. Key strands in the Council's approach include:

- **A role for the private sector:** The involvement of the private sector in a partnership to deliver Mersey Gateway is designed to ensure on-time, on-budget delivery of this major asset as well as its effective whole-life maintenance and operation.
- **Commercial case:** the Council has developed a sound commercial strategy for managing the Council's retained risks and a sound procurement strategy which takes a rigorous approach to the private sector's role. The transfer of risk to the private sector will be moderated to ensure the Council receives best value bids.
- **Procurement strategy:** the Council's approach will procure the infrastructure and tolling operations at best value while also crucially procuring the commercial expertise to secure the toll revenue.
- **Market engagement:** the Council will continue to engage with the market to develop the most efficient delivery structure; further formal consultation will be carried out on key commercial issues, including Project structure and risk transfer.
- **Establishing a productive relationship:** the Council's contract strategy is designed to procure a high quality service where payments are matched to the results that the Council wishes to see delivered.

- **Sound Project delivery:** The Council's approach to the procurement of Mersey Gateway draws upon extensive precedent of the effective delivery of major projects in the UK, driven by an experienced in-house Project team and well-respected advisers led by a committed Project Board. The Council is confident that the Project is being taken forward in an effective and professional manner; this has been confirmed by Gateway Reviews and the level of market interest that the Project is attracting.

Notwithstanding the above, the Council is keen to work with central Government and Infrastructure UK to continue to improve the delivery model for the Project and to be at the forefront of emerging policy as regards allocating risk, other funding options and alternative procurement models.

Can the activity be provided by a non-state provider or by citizens wholly or in partnership?

Yes

The Council's strategy for the Mersey Gateway Project is based on private sector participation in providing the transport infrastructure which will drive economic growth in the Borough and in the region.

The role of the public sector, and calls on the public purse, have been minimised to that required to deliver a successful project. The Council, in consultation with its partners, will retain the authority to set tolls consistent with the commercial requirements and to sustain the continuing delivery of Project benefits. The long term success of the investment made is, therefore, locked into the delivery structure.

Can non-state providers be paid to carry out the activity according to the results they achieve?

Yes

The Council's strategy for the Project is based on procuring a high quality service from a private sector company who will operate and maintain the new crossing and its tolling facilities.

At the heart of the contract will sit the payment mechanism. The payment mechanism will match payments to the results that the Council wishes to see delivered and establish the incentives for the private sector to deliver the service.

The Council will encourage private sector innovation by defining its service requirements on an output basis rather than as prescriptive inputs. Performance measures and a performance management regime will be incorporated into the contractual regime.

Can local bodies as opposed to central government provide the activity?

Yes

Halton Borough Council is promoting the Project.

The Project has widespread regional support among public bodies, businesses and the community. The region has shown its commitment by identifying the Mersey Gateway as one of its priority projects.

The proposed funding arrangements will remove the need for any future demand for Government finance to maintain this important river crossing. This is in stark contrast to the regular bids for finance to maintain Silver Jubilee Bridge made in recent years, which are likely to escalate should Mersey Gateway not proceed.

The local community will become responsible for securing efficient transport services across this vital river crossing for the foreseeable future, and the funding proposals provide the resources that empower the community to discharge this local responsibility.

This project is backed by:





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