



Full Business Case

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FULL BUSINESS CASE

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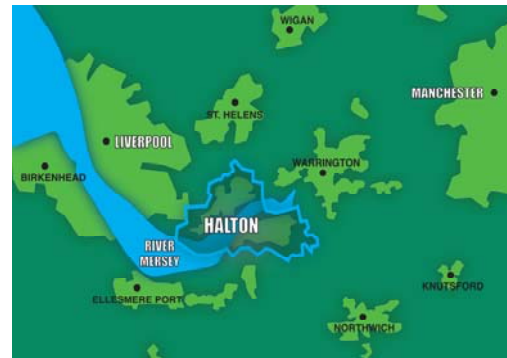
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1 INTRODUCTION

1.1.1 This document presents Halton Borough Council's Full Business Case (FBC) for the Mersey Gateway Project.

Overview of the Project

1.1.2 The Mersey Gateway Project is a Public Private Partnership (PPP) project for a new tolled crossing of the river Mersey in Halton, connecting the towns of Widnes and Runcorn on the north and south sides respectively.



Location maps

1.1.3 The existing Silver Jubilee Bridge (SJB) in Halton is currently the only road crossing on the river Mersey between the Mersey Tunnels at Liverpool and the local roads in Warrington. It is the only strategic road crossing between the Tunnels and the Thelwall Viaduct on the M6 Motorway; a road distance of 55km separates the Tunnels from the Thelwall Viaduct.



Crossings of the Mersey

1.1.4 The SJB operates over or very close to its capacity for much of the working day; traffic flows of above 80,000 vehicles per day, as compared to a design capacity of 45,000, result in congestion and significant delays at peak times. Forecasts show

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that traffic volume is set to rise further and the level of service offered to users will deteriorate as demand for travel and road transport continues to grow. Congestion associated with the SJB is accepted as a constraint to economic regeneration and growth both locally, within the Borough, and across the wider Liverpool City Region and the north west. It also impacts adversely on the day to day lives of the residents of Halton.

- 1.1.5 The scheme will provide a new north-south, cross-river transport link in the form of a new crossing of the river Mersey providing a dual carriageway connection from the A562 Speke Road in Widnes to the M56 Junction 12 in Runcorn. The carriageway will generally be dual two-lane with dual three-lane across the main crossing.
- 1.1.6 The Project will relieve the SJB of around 80 percent of the current traffic and provide sufficient new capacity to remove congestion from the combined crossings for the foreseeable future. The new route will form an essential link between the Merseyside area and North Wales and Cheshire where the strategic routes carry a total of approximately 450,000 vehicles each working day.
- 1.1.7 The new crossing will permit the SJB to be reconfigured and restored to its function as the 'local bridge'. Improved public transport access to the SJB can be achieved, while pedestrian and cycling crossings of the Mersey can be encouraged.
- 1.1.8 The new crossing and the existing SJB will be tolled. Demand risk will be retained by the Council.
- 1.1.9 A more detailed description of the scheme is included in Section 4.2; the approach to tolling (which is an integral part of the scheme) is described in Section 4.3.

1.2 Project Mission Statement

- 1.2.1 The Mersey Gateway Project mission statement is:

To improve accessibility. To drive and support the social, economic and environmental regeneration of Halton and the Liverpool City Region

1.3 Strategic Objectives

- 1.3.1 The Council's strategic objectives are as follows:
 - to relieve the congested SJB, thereby removing the constraint on local and regional development and better provide for local transport needs;
 - to apply minimum toll charges to both Mersey Gateway and SJB consistent with the amount required to satisfy affordability constraints;
 - to improve accessibility in order to maximise local development and regional economic growth opportunities;
 - to improve local air quality and enhance the general urban environment;
 - to improve public transport links across the river;
 - to encourage the increased use of cycling and walking; and

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- to restore effective network resilience for road transport across the river.

1.3.2 Note that the Council's objectives for the Project are not solely reflected in the new infrastructure to be provided, but run through the wider Mersey Gateway initiative. They are supported by the Mersey Gateway Sustainable Transport Strategy and the Mersey Gateway Regeneration Strategy, which are key policy initiatives to which the Council is committed alongside the Mersey Gateway Project itself (see Appendices 1A and 1B).

1.4 Overview of the approach to commercial and procurement strategy

1.4.1 The Council's approach to commercial and financial risk arising from a funding structure which is dependant on toll revenue is a key feature of the Project and a key part of this FBC. The Council's approach is detailed in the Commercial Case and also evident in the Delivery and Financial Cases. The approach was an important factor in the project receiving Conditional Approval in October 2011.

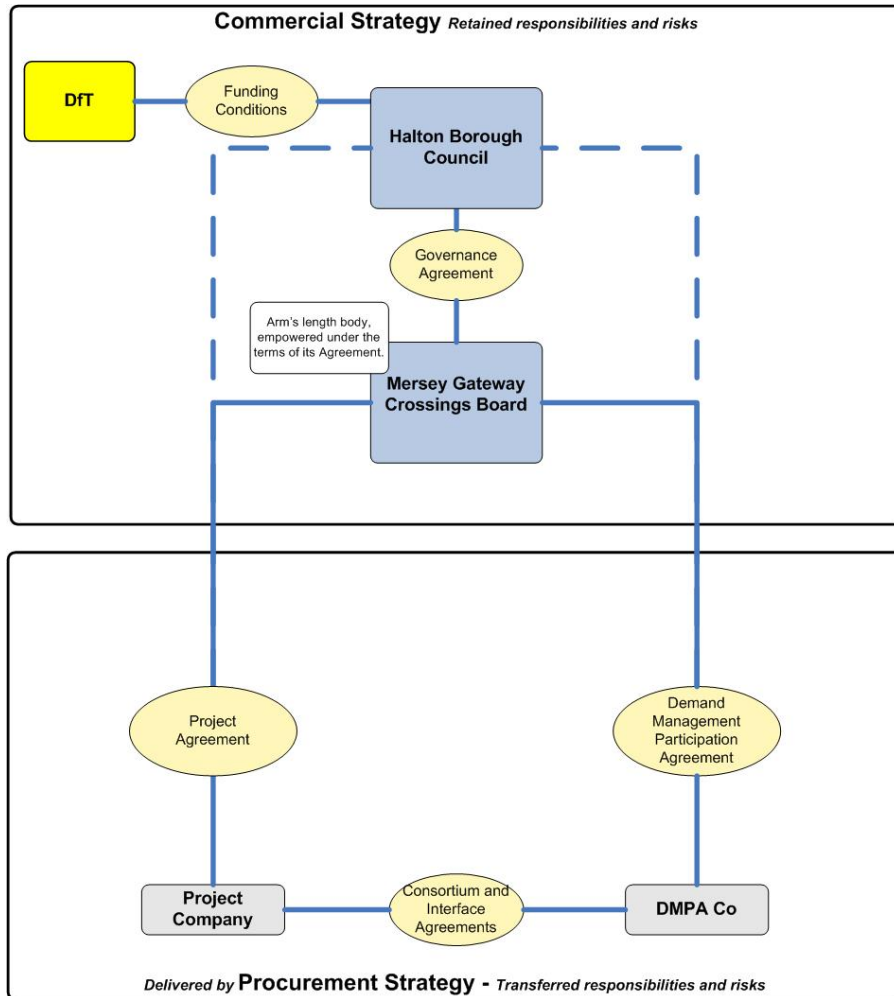
1.4.2 In summary, to deliver a successful Project, the Council developed a public-private partnership structure which was designed to drive value for money through the allocation of risk determined by a procurement process that offered the private sector the opportunity to add value in a competitive process. The approach taken drew on extensive investigation and market consultation where a key driver for value for money was the consideration of tolling risk and the delivery of the new crossing.

1.4.3 The project structure has the following five elements:

- the creation of the Mersey Gateway Crossings Board, an arms-length entity under the terms of a Governance Agreement with the Council;
- the delivery of the Project infrastructure through a design, build, finance and operate contract (the Project Agreement);
- the delivery of tolling infrastructure and services through the Demand Management Participation Agreement (DMPA);
- the delivery of private sector expertise in managing demand risk through the DMPA; and
- the procurement of a consortium that will provide an integrated approach to the operation and maintenance of the Mersey Gateway bridge and the collection of tolls, including with respect to the testing and commissioning of an end-to-end revenue collection system from the same consortium. The interface risk between the Project Agreement and the DMP Agreement would be managed through interface arrangements between the Project Company and DMPA Company.

1.4.4 This approach is illustrated below:

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1.5 Current status of the Project

Procurement

- 1.5.1 The Council has selected its Preferred Bidder for the Project. The procurement process that was undertaken to select the Preferred Bidder is described in the Commercial Case.
- 1.5.2 Financial Close is scheduled for 26^h February 2014.
- 1.5.3 The Preferred Bidder is the Merseylink bidding group principally comprising Macquarie Capital Group Limited, Bilfinger Project Investments Europe Limited, Vialia Sociedad Gestora de Concesiones de Infraestructuras S.L., FCC Construcción S.A. and Sanef.
- 1.5.4 The Project Agreement will be awarded to Merseylink, a special purpose vehicle comprising equity members Macquarie Capital Group Limited, Bilfinger Project Investments Europe Limited, Vialia Sociedad Gestora de Concesiones de Infraestructuras S.L. and FCC Construcción S.A.
- 1.5.5 The Demand Management Participation Agreement will be awarded to Sanef.

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1.5.6 The Preferred Bidder's organisational arrangements are shown below, together with the make-up of the prospective Project Company (and the associated Construction Joint Venture) and prospective DMPA Company.¹

1.5.7 The Preferred Bidder is in the process of procuring the O&M Contractor. The Preferred Bidder has advised that they have received an offer letter from Lafarge Tarmac and that the appointment of the O&M Contractor is anticipated imminently.

Funding Approval

1.5.8 DfT awarded Conditional Approval² to the Project in October 2011. The funding conditions ('funding letter' dated 19 October 2011) are included in Appendix 1-C.

1.5.9 The Council agreed to the Conditional Funding Approval and the funding conditions at a meeting of Full Council on 19 October 2011. A copy of the Chief Executive's letter to DfT is included in Appendix 1-D. A copy of the Section 151 Officer certification is also provided (Appendix 1-E).

1.5.10 In the course of the procurement process, the Council and DfT agreed some changes to the terms of the funding approval. These are detailed in the Commercial Case and Financial Case and include a change to the profile of the availability support grant.

1.6 Statutory consents and Orders

1.6.1 The Council has secured the following regulatory approvals.

Permissions and orders

1.6.2 The Secretaries of State for Transport³ and for Communities and Local Government announced their decisions on the planning applications and orders on 20 December 2010⁴; the decisions were supported by the Report produced by the Planning Inspector Alan Gray.⁵

¹ Note that the interface arrangements are not shown; refer to the Commercial Case.

² Conditional Approval is the interim stage in the Department's major scheme funding approval process. Conditional Approval allowed the Project to proceed to procurement.

³ The River Mersey (Mersey Gateway Bridge) Decision Letter

⁴ The Case principally rests on the decisions of the SoS for Transport. The decisions of the SoS for Communities and Local Government relate to the Council's applications for planning permission, listed building consent and open space certificates.

⁵ Report to the Secretary of State for Transport and the Secretary of State for Communities and Local Government by Alan T Gray.

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... the Secretary of State [for Transport] 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.

Extract from the River Mersey (Mersey Gateway Bridge) Decision Letter issued by DfT

1.6.3 The Council has secured the following regulatory approvals under the decisions of the SoSs:

- The River Mersey (Mersey Gateway Bridge) Order - an order under Section 3 of the TWA 1992 was made by the SoS on 11 January 2011 authorising the Council to construct, maintain and operate the new crossing and related works including associated highways and compulsory purchase powers (the 'TWA Order'). It also provides for the collection of a range of tolls for use of the bridge. The Order came into force on 1 February 2011.
- Planning permission was also granted by the SoS for the works authorised by the Order.
- Two Compulsory Purchase Orders (CPOs) - The Halton Borough Council (The Mersey Gateway - Queensway) Compulsory Purchase Order 2008 and The Halton Borough Council (The Mersey Gateway – Central Expressway) Compulsory Purchase Order 2008 - were made by the Council and subsequently confirmed with minor modifications by the SoS for Communities and Local Government to enable the compulsory acquisition of land and rights not covered by the Order but required for the Project.
- The Council has also made two side road orders - The Halton Borough Council (A533 Queensway) Side Roads Order 2008 and The Halton Borough Council (A533 Central Expressway) Side Roads Order 2008. These orders were confirmed by the SoS with minor modifications. The side road orders address changes to the highway network which are not addressed by the River Mersey (Mersey Gateway Bridge) Order.
- Full planning permissions have been secured for engineering operations and related highway infrastructure works not covered by the deemed planning permission in relation to works and improvements to the Central Expressway, Weston Link, the Weston Point Expressway and M56 Junction 12 and for modifications to the northern approaches to the SJB.
- A listed building consent has also been granted by the SoS for Communities and Local Government to allow for the proposed

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modifications to the carriageway of SJB which is a Grade 2 listed structure.

- The A533 (Silver Jubilee Bridge) Road User Charging Scheme Order 2008 - a road user charging order pursuant to the Transport Act 2000 - was made by the Council on 5 December 2008. The A533 (Silver Jubilee Bridge) Road User Charging Scheme Order 2008 was confirmed by the SoS authorising the Council to make charging schemes for imposing charges in respect of the use of the SJB.
- An Exchange Land Certificate was issued by the SoS for Communities and Local Government concerning open space land on the north side of the St Helen's Canal at Widnes Loop. A certificate for open space on the Runcorn side of the Mersey - Wigg Island was also issued on 20 December 2010.

Supplementary planning applications

- 1.6.4 The Council submitted supplementary planning applications to the local planning authority on 12th December 2011. While the above (then existing) consents were sufficient to deliver the Project, these supplementary planning applications were designed to improve the value-for-money of the Project.
- 1.6.5 The planning applications covered changes to the originally consented scheme including: the introduction of Open Road Tolling and deletion of toll plazas; amendments to the Ditton and Widnes Loops junctions consequential on the deletion of toll plazas; amendments to the Halton Lea junction and the layout between the junction and Halton Brow; amendments at the Lodge Lane junction to facilitate the retention of the existing Busway bridge; incorporation of detailed changes resulting from value engineering; removal of the requirement to provide a future light rail transit route across the Mersey Gateway Bridge; and relaxation in the level of detail shown for the structures, including the main bridge, to provide greater flexibility and opportunity for alternatives to be proposed.
- 1.6.6 The cost savings associated with these changes were taken into account in the OBC and in the Conditional Approval.
- 1.6.7 The supplementary planning applications were approved without objection on 12 March 2012.
- 1.6.8 Note that the flexibility created in the appearance of the main crossing and the removal of the requirement to accommodate future light rail on a lower deck allowed the Bidders much greater scope to optimise their designs, particularly with regard to buildability and method. This delivered considerable savings in the procurement of the infrastructure. Refer to the Commercial Case.

Enforcement Regulations

- 1.6.9 The Council has powers to toll the crossings under the TWA Order and the Road User Charging Scheme Order. Both the TWA Order and the RUC Order were developed under the assumption that barrier tolling would be used. However, in advance of Conditional Approval, and following discussions with DfT, the Council resolved to adopt open road tolling. DfT has brought legislation to support the enforcement of tolls; the Road User Charging Schemes (Penalty Charges,

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Adjudication and Enforcement) (England) Regulations (the “Enforcement Regulations”) came into force on 2 September 2013. These national regulations will need to be brought into effect by the Council to allow the enforcement of tolls on the two bridges. Refer to section 4.3.7 for further details.

Prospective Project Company’s Planning Application – Bridgewater Junction

1.6.10 The prospective Project Company’s proposals include some changes to the details of the scheme as compared to the consented scheme. These changes were examined in the course of the procurement process and are all within the margin of flexibility given to allow Bidders to develop value-for-money bids within the procurement documentation.

1.6.11 However, the prospective Project Company’s proposals for the Bridgewater Junction require a new planning application. The planning application was submitted on 27 August 2013 following a public consultation in July 2013. The Local Planning Authority granted consent on 4 November 2013.

1.6.12 The approach taken to planning in delivering value for money in the procurement is described in more detail in the Commercial Case (section 7).

1.7 Support for the Project including Business Support

1.7.1 The Project continues to have wide ranging support in the region, including support from businesses, and written statements of support were provided with the OBC to support the Strategic Case. The list of the organisations who submitted letters of support includes:

- Northwest Regional Development Agency (NWDA)
- Cheshire County Council (now Cheshire East Council)
- St Helens Council
- Cheshire Constabulary
- Wirral Council
- Merseyside Police
- Knowsley Council
- Sefton Council
- Merseytravel (co-ordinates public transport and acts in partnership with private bus and rail operators to provide public transport in Merseyside)
- Halton and St Helens Primary Care Trust
- Cheshire Fire Service
- Liverpool City Council
- Cllr Rob Polhill (Halton Council)
- The Mersey Partnership
- INEOS Chlor Vinyls
- Derek Twigg MP (Halton)
- Mersey Maritime
- LCR Leaders Cabinet
- Vale Royal Council (now Cheshire West & Chester)
- Linda Redhead (Halton Lib Dem Leader)
- Morbaine Limited
- Lord Harrison

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- Chester West & Cheshire
- Cllr Paul Kennedy (Warrington Borough Council)
- Peter Stoney (Liverpool University Management School)
- Liverpool Chamber of Commerce
- Federation of Small Businesses (Merseyside, West Cheshire & Wigan)
- Friends of Liverpool Airport
- Cllr Robert Gilligan (Halton)
- Picow Engineering Group
- Halton Chamber of Commerce
- Homes & Communities Agency
- Halton Housing Trust
- Steve Jennings
- Mace & Jones
- Stobart Group
- Cllr Tony McDermott (Halton)
- Cllr Phil Harris
- Graham Evans (was PPC now MP)
- North Wales Business Club

Memorandum of Understanding with Warrington Borough Council

1.7.2 The Council and Warrington Borough Council (WBC) have entered into a Memorandum of Understanding (MOU) to jointly address the predicted effects and opportunities arising from the Project. WBC support the project in principle but has raised concerns over the potential for some traffic to divert to alternative routes through Warrington as a way of avoiding the toll charges that would apply to the crossings. The Parties have agreed to work together to address the traffic diversion risk through monitoring the effects of the Project on traffic levels in Warrington and in taking collaborative action towards mitigating any adverse impact either identified or predicted to occur. The MOU establishes the basis of the partnership.

1.7.3 A copy of the MoU is included in Appendix 1-F.

Memorandum of Understanding with the Highways Agency

1.7.4 The Highways Agency and the Council have entered into a Memorandum of Understanding (MOU) to promote a partnership approach to the management of the potential impact of the Mersey Gateway Project in the operation of the Strategic Road Network (SRN) in the Region.

1.7.5 The parties have agreed to work together to mitigate any risk and to maximise the delivery of potential benefits that the Project offers in realising the shared aims and objectives.

1.7.6 The key aims and objectives of the partnership are as follows:-

- To recognise the importance of the SRN to the economy of the Region and have regard to the impact of the Project on traffic levels using the strategic network (the M6, M56 and M62 motorways) when setting toll charge levels in order to safeguard the safe and efficient operation of the network.

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- To agree an appropriate permanent Signing Strategy for primary destinations via motorway routes connecting with the Project.
- To incorporate the availability of the new Mersey Crossing in temporary real time traffic information made available to road users via motorway variable message signs and traffic information bulletins to improve journey time reliability during incident management and routine maintenance.
- To take into account the level of service opportunities available from the additional river crossing capacity when deciding any future investment schemes to improve technology in motorway communications and/or increase capacity (such as hard shoulder running) on M56 and M62 motorways.
- To agree an incident management strategy to maximise journey reliability on SRN and the new crossing infrastructure.

1.7.7 The Highways Agency and the Council have agreed a number of actions in support of the partnership.

1.7.8 A copy of the MoU is included in Appendix 1-G.

2 OVERVIEW OF THE FULL BUSINESS CASE

2.1.1 This FBC covers:

- **The Strategic Case** which confirms that the scheme is consistent with and will contribute to, local, regional, and national objectives in transport and other policy areas.
- **The Scheme Description** describes the Scheme and the approach to tolling (which is an integral part of the Scheme);
- **The Value for Money Case** was set out in the OBC; this FBC provides details of the appraisal of Social and Distributional Impacts (SDIs) for the project;
- **The Delivery Case** describes the establishment of the Mersey Gateway Crossings Board, which will be empowered by the Council to discharge its on-going project responsibilities in the post-Contract Award period (in the design and construction phase and in the post-opening operational phase);
- **The Commercial Case** demonstrates a sound commercial (business) strategy for managing the Council's retained risks and a sound procurement strategy and process which has taken a rigorous approach to the private sector's role in delivering the Project objectives; and
- **The Financial Case** details the funding contribution required from DfT and the robust estimates of toll revenue, that the Council is able to meet its own contribution, and that there are robust proposals in place for the management of financial risks, particularly those related to the toll revenue stream.

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3 THE STRATEGIC CASE

3.1 Purpose

3.1.1 The Project's Strategic Case presented in the OBC, demonstrated that the scheme is consistent with and will contribute to, local, regional, and national objectives in transport and other policy areas.

Changes since Conditional Approval

3.1.2 The strategic case and the scheme context have not changed since Conditional Approval.

3.2 Summary of the Strategic Case

3.2.1 The Strategic Case which was presented in the OBC is not re-presented in this FBC. Rather this FBC summarises what was presented in the OBC.

3.2.2 The OBC notes that the Strategic Case for the Project was, along with other planning matters, comprehensively examined at the Public Inquiry held in July 2009. The Strategic Case was thus documented by recording the decisions of the Secretaries of State for Transport⁶ and for Communities and Local Government announced on 20 December 2010⁷; the decisions were supported by the Report produced by the Planning Inspector Alan Gray.⁸

... the Secretary of State [for Transport] 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.

Extract from the River Mersey (Mersey Gateway Bridge) Decision Letter issued by DfT

3.2.3 Key aspects of the case are summarised in the OBC together with details of the planning decision which, among other things, confirm the strategic justification for the scheme.

3.2.4 In addition, the Strategic Case presented supplementary material produced to support the Conditional Approval funding discussions held with DfT in May to July 2011 (i.e. material which was additional to that on which the SoS made the above decisions). The key conclusions of the supplement were:

⁶ The River Mersey (Mersey Gateway Bridge) Decision Letter

⁷ The Case principally rests on the decisions of the SoS for Transport. The decisions of the SoS for Communities and Local Government relate to the Council's applications for planning permission, listed building consent and open space certificates.

⁸ Report to the Secretary of State for Transport and the Secretary of State for Communities and Local Government By Alan T Gray.

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- The pace of investment in Halton was already significant, with many schemes already being implemented and the area in general out-performing the economy as a whole;
- This was mirrored by economic growth in the Liverpool City Region which is also ahead of the regional trend;
- It was considered that the base year forecasts built into the transport and appraisal models may underestimate current transport demands because of this accelerated investment;
- The long term effect of the Project overall will be a small increase in cross-Mersey movements. These increases will be constrained by the application of a toll, which will dampen demand in the area;
- At the same time the Project will significantly improve accessibility in the area, providing significant benefits in terms of widening the job market;
- According to the results of stakeholder consultations, unreliability of transport in the area is considered to be the key constraint to the future prospects for local businesses;
- The Project will have a key role to play in reducing unreliability in the area's transport network, by providing additional capacity, with linkages that will minimise the effect of diverting traffic on localised movement;
- There are a number of major investments and strategies that have a significant reliance upon the scheme, where later stages of investment are unlikely to take place without the project;
- Wide ranging investments such as the Liverpool Super Port concept, rely heavily upon a reliable transport network, which the Project would be a key element of;
- Overall, the wider economic impact of the scheme is estimated to be at least £100 million per annum increased GVA in the sub-region; and
- For reasons of capacity, flexibility and choice, network resilience and civil contingency, there is no alternative to the Project particularly because of its ability to provide improvements to and choice for all modes.

4 SCHEME DESCRIPTION

4.1 Purpose

4.1.1 The purpose of this section of the Full Business Case is to:

- provide a high-level description of the scheme (see Section 4.2); and
- describe the approach to tolling (which is an integral part of the Project) (see Section 4.3).

Changes since Conditional Approval

4.1.2 The overall scope of the scheme is unchanged from at Conditional Approval.

4.1.3 The prospective Project Company's proposals include some changes to the details of the scheme as compared to the consented scheme. These were examined in the course of the procurement process and are all within the margin of flexibility given to allow Bidders to develop value-for-money bids within the procurement documentation. The prospective Project Company's proposals for the Bridgewater Junction required a new planning application. The approach taken to planning in delivering value for money in the procurement is described in more detail in the Commercial Case (section 7).

4.2 Description of the Scheme

Introduction

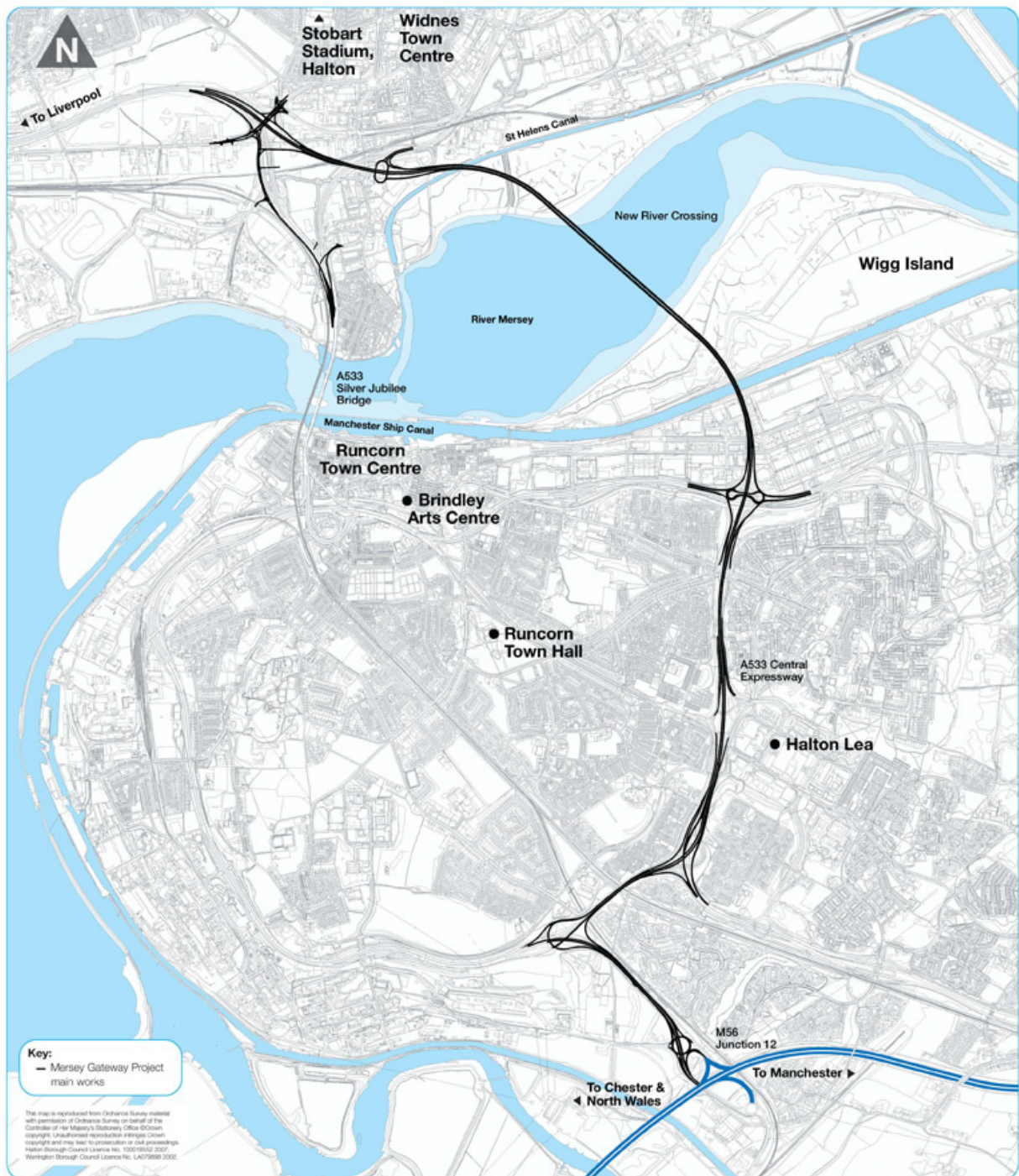
4.2.1 This section provides a high level description of the scheme. A large scale scheme plan is included overleaf. The detailed design will be developed by the prospective Project Company.

Project's History and Development

4.2.2 The Project history and the stages in its development are described by the OBC covering the process by which Scheme came to be identified as the preferred option; this preferred option was selected on the basis of a series of comprehensive options studies carried out since 1994. The scheme was developed in close consultation with stakeholders and the public.

Pre-Conditional Approval Changes

4.2.3 In advance of Conditional Approval, the Council made a number of changes to the scheme in order to deliver cost savings. These changes were the product of a value engineering / 'cost challenge' exercise. The changes included the change from barrier tolling to Open Road Tolling (ORT). The OBC explains the process carried out and the changes made at that time. As noted in paragraph 1.6.4, the Council submitted supplementary planning applications to the local planning authority in connection with these changes.



Scheme plan

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Overview

- 4.2.4 The scheme as a whole provides a new north-south transport link in the form of a new crossing of the River Mersey in Halton together with improvements to the connecting roads north and south of the river; modifications to the existing SJB are also made. The new route forms an essential link between the Merseyside area and North Wales and Cheshire. The new crossing will relieve the SJB of much of the traffic that presently causes congestion and will permit the SJB to be reconfigured and restored to its function as the 'local bridge'. Improved public transport access to the SJB can be achieved, while pedestrian and cycling crossings of the Mersey can be encouraged.
- 4.2.5 The new bridge, which will cross the river upstream of the SJB will be a significant structure, capable of becoming a symbol for the area.
- 4.2.6 The scheme will provide a new/upgraded dual carriageway connection from the A562 Speke Road in Widnes to the M56 Junction 12 in Runcorn. The dual carriageway will generally be dual two-lane but with dual three-lane across the new bridge. The design speed for the main line will generally be 100kph.
- 4.2.7 The scheme comprises the elements described below (working from north to south).

Description – Widnes

- 4.2.8 The scheme will tie into the A562 Speke Road in Widnes.
- 4.2.9 A modified grade-separated junction with Ditton Road will be provided (Ditton Junction) giving connections to the local road network.
- 4.2.10 East of the Ditton Junction the new route will bridge over the Garston to Timperley rail freight line and then cross the Victoria Road area at high level maintaining local connections underneath.
- 4.2.11 Beyond Victoria Road a further junction is required to connect the A557 Widnes Eastern Bypass to the new crossing. The Widnes Eastern Bypass, which currently connects to the SJB, will be demolished west of this junction.

Description – St Helens Canal to Manchester Ship Canal (including the main crossing)

- 4.2.12 After the A557 junction, the route curves to run south-east, crossing over the St Helens Canal (and the Trans-Pennine Trail) and then over the Widnes Warth Saltmarsh before crossing the River Mersey. On the south side of the river, the route then crosses the Astmoor Saltmarsh, Wigg Island and the Manchester Ship Canal.
- 4.2.13 A new elevated viaduct and bridge structure, over 2km long, will be constructed. The main crossing will be a cable stayed structure about 1km long with three towers in the river; the locations for these towers are restricted by a provision in the TWA Order.
- 4.2.14 The saltmarshes and the Upper Mersey Estuary are environmentally sensitive areas with the Estuary being tidal and relatively shallow with exposed sand banks at

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low tide. A key constraint is the Special Protection Area in the Middle Mersey Estuary downstream of the SJB.

- 4.2.15 The main constraint on the vertical alignment of the crossing is the required navigation clearance over the Manchester Ship Canal which has been agreed with the operators of the canal (Peel Holdings). The height of the towers of the main bridge is restricted by the requirements of the nearby Liverpool John Lennon Airport.

Description – Runcorn

- 4.2.16 South of the Manchester Ship Canal the route will cross the Astmoor Industrial Estate on another high level viaduct structure maintaining local access beneath.
- 4.2.17 At the south side of the Astmoor Industrial Estate the new route will connect to the existing expressway network at the Bridgewater Junction (which also crosses the Bridgewater Canal). The prospective Project Company has made alternative proposals to the consented scheme as part of its tender.
- 4.2.18 To the south of the Bridgewater Junction the existing Central Expressway will be upgraded, generally within the existing highway boundaries, to accommodate the additional traffic. This will include modifying the access and egress arrangements at the Halton Brow and Halton Lea Junctions.
- 4.2.19 At the Lodge Lane Junction where the Central Expressway meets the Southern Expressway and the Weston Link the junction arrangement will be modified so that the through route becomes Central Expressway to Weston Link.
- 4.2.20 The Weston Link Junction where the Weston Link, Weston Point Expressway and Rocksavage Expressway meet will also be modified to reflect the fact that the majority of the traffic will be using the Weston Link rather than the Weston Point Expressway.
- 4.2.21 At M56 Junction 12 the northern roundabout will be modified to accommodate the anticipated changes in traffic patterns. Signalisation will be retained and liaison with the Highways Agency will be necessary.

Silver Jubilee Bridge and Widnes De-linking

- 4.2.22 The deck space on the SJB will be reconfigured to two traffic lanes (with priority access for public transport vehicles), with the remainder being dedicated to pedestrians and cyclists. Other motor vehicles will be permitted to use the bridge, but the access routes will be down-graded from high standard dual carriageways to mostly single carriageway standard roads.
- 4.2.23 The new crossing will permit the SJB to be reconfigured and restored to its function as the 'local bridge' and the well-developed busway system in Runcorn, established in the New Town initiative, will provide a platform to deliver high-quality bus services across the river into Widnes via the relieved SJB. As described below, relieving the SJB and reconfiguring the deck, means that pedestrian and cycling crossings of the Mersey can also be encouraged.
- 4.2.24 During the procurement, it was decided that the Council (not the Project Co) should retain responsibility for the re-configuration of the SJB's deck to minimise the interface risk between the works related to the SJB that were being undertaken by

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the Council and the Project Co and therefore avoid paying a risk premium for this in the Unitary Charge. The Project Co will remain responsible for de-linking the SJB. As per the OBC, the Council will remain responsible for the operation and maintenance of the SJB, including its lifecycle. See the Commercial Case for further detail.

Public Rights of Way - Walking and Cycling

- 4.2.25 The walking and cycling networks within Halton are extensive although there are areas where improvements are required. Cross-river facilities are poor including limited access to the SJB. Cyclists have no formal facilities on the SJB and share with pedestrians a sub-standard cantilevered route on the eastern side of the SJB.
- 4.2.26 The Project will provide for a shared cycleway/footway on the main deck of the SJB and shared cycleways/footways linking into existing networks in Runcorn and Widnes.
- 4.2.27 The improved cycling and walking infrastructure will encourage the increased use of cycling and walking. Studies have shown the benefits that improved facilities for cycling and walking will bring. Specifically, the opportunities for local residents to cycle and walk to local destinations provide opportunities to improve health and well-being. In addition, the improvements will make cycling and walking viable alternatives to using the car which has benefits for both car owners and non-car owners.

Further background

- 4.2.28 Supporting background material was included in Appendix 4-A of the Outline Business Case and included:
- a detailed description of the design presented to Public Inquiry (the 'Reference Design');
 - a description of the Project's history and development; and
 - a description of the consultations carried out and how key stakeholders have been involved in the Project history and development and in the planning process.

4.3 Tolling

Overview

- 4.3.1 Tolling is an integral part of the Project.
- 4.3.2 The tolling approach has been designed to ensure that:
- the impacts of tolling on the road network are acceptable;
 - the scheme is financially viable ;
 - the scheme is environmentally acceptable; and
 - the scheme meets the Project Objectives.

Tolling Objectives

- 4.3.3 Refer to the Commercial Case for details of the commercial and other objectives for the tolling.

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Tolling Legislation including enforcement

- 4.3.4 The Council has powers to toll the crossings under:
- an order under the Transport and Works Act 1992 in respect of the new bridge; and
 - a Road User Charging Scheme Order under the Transport Act 2000 in respect of the existing bridge.
- 4.3.5 A guide to the tolling powers (*Toll and Road User Charges – Explanation*) in the orders is included in Appendix 4-A.
- 4.3.6 As regards enforcement, at the time of drafting of the Orders, and when they were made/confirmed, it was not possible to insert a full suite of enforcement powers because such powers were not available under the Transport Act 2000 (the "2000 Act"). This was because the Government had not drafted enforcement regulations of general application under the 2000 Act and did not wish the Project's TWAO to pre-empt such powers for example by including drafting based on precedents such as the London Congestion Charge. Given the then reliance on barrier tolling, this did not present an issue at that time, enforcement being by control of passage.
- 4.3.7 DfT has now introduced legislation to support the enforcement of tolls - the Road User Charging Schemes (Penalty Charges, Adjudication and Enforcement) (England) Regulations (the "Enforcement Regulations"). The Regulations allow enforcement actions such as the issuing of penalty charge notices, the examination of vehicles and equipment and the immobilisation, removal, storage and disposal of vehicles. Provisions also cover arrangements for pursuing debt through the courts and adjudication.
- 4.3.8 The Regulations came into force on 2 September 2013.
- 4.3.9 Note that introduction of these Regulations took place in parallel with the procurement process towards the end of the dialogue period (refer to paragraph 7.9.7 for details of the procurement timetable). On 5 November 2012 the Department published its detailed proposals for the Regulations and launched a consultation. The consultation closed on 28 January 2013. DfT published its response to the consultation in July 2013 (after the Project's Final Tender deadline) and advised that the Regulations would come into effect in September 2013.
- 4.3.10 In order to give the Regulations effect, the Council will make two road user charging orders (RUCOs), one for the Mersey Gateway Bridge and one for the SJB. These orders will define the enforcement regime that will apply on both bridges and will give the Council the full suite of enforcement powers provided for under the Regulations.
- 4.3.11 The penalty charge structure notified to Bidders during dialogue of £12/20/60 does not comply with the enacted enforcement regulations. The Project Team has therefore agreed to revise the penalty charge notice structure to £20/40/60. The open road tolling enforcement regulations that came into force in September 2013 require Charging Authorities to de-fray the cost of providing adjudicators to hear disputes relating to the issue of penalty charge notices. It is intended to be free for road users to bring a claim, unless the claim is frivolous or vexatious. The Project Team has confirmed that the Council as Charging Authority will meet the cost of

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adjudications, but only in cases where the adjudicator finds in favour of the Council (ie the appeal was not valid). DMPA Co will bear the cost of the adjudication where the adjudicator finds in favour of the user.

4.3.12 Refer to the Commercial Case for a description of the approach to the introduction of the Regulations in the procurement process (the approach was developed to deal with the situation that the Regulations were not in place at the launch of procurement and were being developed in parallel).

4.3.13 The powers that will be available by application of the Regulations are described in paragraphs 4.3.36 to 4.3.38 below.

Overview

4.3.14 An overview of the approach to tolling in the TWA Order, and the order that implements the RUC Scheme is given below. The approach to enforcement in the Enforcement Regulations is also described.

4.3.15 The prospective DMPA Company was required to develop a detailed Revenue Collection Business Plan in the course of the competitive dialogue stage of the procurement process and submits its final proposal with its Final Tender. The Plan was required to (among other things) make proposals for toll levels, discount schemes and enforcement regimes within the framework defined by the legislation. The DMPA Company's Revenue Collection Business Plan is described in the Commercial Case.

Toll Levels

4.3.16 Tolls must be within the range specified in the orders; no revision can result in a toll that exceeds the higher level of the range. As tolls can be waived or discounted, the lower limit does not practically limit the level of tolls that can be charged.

4.3.17 The arrangements for toll setting, between the Council, the Mersey Gateway Crossings Board and the private sector (the DMPA Co under the Demand Management Participation Agreement) are described by the Commercial Case.

Toll Range

4.3.18 The TWA Order, and the order that implements the RUC Scheme, specify ranges within which tolls for use of the new bridge or SJB would have to be set. The ranges proposed are set out in April 2008 figures, but will increase with inflation (the orders specify RPI + 1%).

4.3.19 The ranges for tolls that are proposed for the new bridge and the SJB in 2008 prices are set out in the table below, with explanations of the vehicle classes proposed.

Class of vehicle	Description	Toll range
1	Mopeds, motorcycles, motor tricycles or quadricycles.	£0.00 to £2.50
2	Cars and light vans.	£1.00 to £2.50
3	Small goods vehicles, motor caravans and coaches (< 5 tonnes).	£2.00 to £5.00

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Class of vehicle	Description	Toll range
4	Large goods vehicles and coaches (> 5 tonnes).	£4.00 to £10.00

- 4.3.20 In addition, it is proposed that large and abnormal vehicles and loads should be charged between £6.00 and £220.00 to use the new bridge and the SJB. These are identified by specific regulations, so as not to be confused with other types of goods vehicles. Similar levels of tolls apply to such vehicles and loads on the M6 Toll Road.
- 4.3.21 The toll ranges themselves can be varied over time. This will be by increasing the level of the range by a maximum of 1% per annum above retail price index inflation. Using this level of indexation allows actual toll charges to increase broadly in line with average wage inflation. If this modest scope for increases in tolls/charges is insufficient, then it will be necessary for the Council to undergo more rigorous processes to seek increases in the toll ranges applicable. These are described in Schedule II of the TWA Order and required by the Transport Act 2000.
- 4.3.22 During operation, using bands within which tolls can be varied without lengthy procedures allows the Council (and Crossings Board) to respond to market and traffic (revenue) conditions as they occur.
- 4.3.23 Any toll amendments must be published in a local newspaper and can take effect no earlier than 28 days after the notice.
- 4.3.24 If VAT was to become payable on the toll charge, the VAT element would not restrict the upper limit of the toll range, i.e. the range limits are exclusive of VAT.
- 4.3.25 It is the Council's intention that the initial ('opening day') tolls should be equivalent to those payable for use of the existing Mersey Tunnels. However, it is important to note that there is no formal requirement to match the Tunnel tolls and the tolling powers under the orders are not constrained in this way.
- 4.3.26 The opening year standard toll fares currently assumed are as follows (2017 Prices).

Toll Class	£
1	0.00
2	2.00
3	6.00
4	8.00

- 4.3.27 These rates are approximately 10% higher than the projected Mersey Tunnel rates (assuming Merseytravel reintroduce inflation increases in the coming years) that were used in the OBC in order to encourage DMPA Company to devise economic discount schemes that increase patronage or improve operational efficiencies and reduce toll leakage. Bidders were advised during the Dialogue Period that their Revenue Collection Business Plans were required to provide for toll discount schemes that allowed eligible customers in all toll classes to receive a toll fare that

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allows them to use the Crossings for the toll rates assumed in the OBC. See paragraph 4.3.33 for further details of the economic discounts proposed by the DMPA Co.

Exemptions

- 4.3.28 The TWA Order and Road User Charging Order provide for certain exemptions from tolling and charges. These include (subject to certain registration requirements) a police vehicle (identifiable as such by writing or markings on it or otherwise by its appearance, or being the property of the Service Authority for the National Criminal Intelligence Service or the Service Authority for the National Crime Squad); a vehicle which belongs to any of the armed forces; a fire engine; an ambulance; and a vehicle owned by or being used for the transport of a person who has a disabled person's badge and which displays a current disabled person's badge.
- 4.3.29 Furthermore, tolls/charges will not be charged for: vehicles that have broken down on either bridge and are being towed or transported; and vehicles used to operate or maintain either crossing. In addition, the Secretary of State may prescribe additional classes of exemption under the Transport Act 2000.

Discounts and Concessions

- 4.3.30 The TWA Order and Road User Charging Order allow the Council to operate discount and concession schemes.
- 4.3.31 These provisions allow the Council to discharge its resolutions as regards tolling. These include that the crossings must make provision for Public Transport to be toll free and for discounts for local people to be given priority when establishing the tolling regime. The actual arrangements for discount schemes can only be decided in the course of the procurement process and subsequently during operation (as actual revenues become known).
- 4.3.32 The provisions also allow the Council to offer frequent user or tag-based discount schemes, such as season tickets.
- 4.3.33 The DMPA Company's Revenue Collection Business Plan sets out its proposals for economic (frequent user or tag-based discount scheme) discounts. These are as follows:

Type	Toll Class 2	Toll Class 3	Toll Class 4	Discount	Comment
Standard Toll	£2.00	£6.00	£8.00	0	"Pay by plate" unregistered users pay this toll
Video Registered	£1.90	£5.70	£7.60	5%	For those who despite marketing do not want a sticker

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Type	Toll Class 2	Toll Class 3	Toll Class 4	Discount	Comment
Sticker Registered	£1.80	£5.40	£7.20	10%	Discount for sticker and registration
Frequent User Discount Scheme	£90 monthly subscription for frequent peak user; £60 monthly subscription for off peak	NA	NA	Depends on use but c5-10%	For frequent users who do not qualify for the Council's local resident discount scheme. Users have discount only if they are registered with a sticker; otherwise they pay standard toll

4.3.34 A discount scheme for residents of Halton (the "Local User Discount Scheme") has been developed. This Local User Discount Scheme is essential to ensuring local support for the Project amongst the Council and local users.

4.3.35 A paper setting out the approach is included in Appendix 4-B. The Local User Discount Scheme, as detailed in Appendix 4-B, was approved by the Council on 11 December 2013.

Enforcement Regulation

4.3.36 The Regulations make provision for charging authorities responsible for road user charging schemes made under the Transport Act 2000 ("TA 2000") to impose penalty charges where the applicable road user charge is not paid and, where the penalty charge is unpaid, to pursue civil enforcement through the county court. The Regulations specify the grounds on which representations against a penalty charge notice may be made to a charging authority and the adjudication procedure to be adopted if those representations are not accepted.

4.3.37 The Regulations enable a charging authority to draw on powers contained in Part 3 of TA 2000 and include in its charging scheme the power for an authorised person to examine, enter and search a vehicle to ascertain (i) that it is displaying any documents or carrying any equipment required by the charging scheme, and (ii) whether those documents are falsified or that equipment is in proper working order. The entry and seizure powers are exercisable only by a constable or in the presence of a constable.

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- 4.3.38 The Regulations also enable a charging authority to draw on powers contained in Part 3 of TA 2000 and include in its charging scheme the power to immobilise, remove and, ultimately, dispose of a vehicle whose keeper fails to pay a penalty charge, with accompanying provisions dealing with the right for the keeper to make representations and seek adjudication in respect of the exercise of such powers. The use of the immobilisation and removal powers is limited to situations where it has not been possible to serve a penalty charge notice on the registered keeper of the vehicle, the vehicle has incurred three or more unpaid penalty charges and a grace period of 14 days has expired. The disposal power can only be used where the vehicle has been held by a custodian for at least 28 days and the custodian has made such inquiries as are practicable to identify its keeper.

DVLA Access

- 4.3.39 In order to enforce against violators, the DMPA Company will require access to the DVLA's data base of registered vehicles. The Board intends to establish a direct electronic link with the DVLA (at its own cost) in accordance with an agreement between the Council and the DVLA for establishing and operating such link. The Council will give the DMPA Company access to this link as its agent and the DMPA Company's use shall be limited to the purposes defined in any agreement between the Council and the DVLA. The DMPA Company will be responsible for meeting costs associated with interfacing with the electronic link provided by the Council and for the costs of making enquiries from the DVLA via this link.
- 4.3.40 It is understood by the Council that the DVLA intends to upgrade its vehicle registration platform between now and the anticipated opening in 2017 and, therefore, it is unknown what the cost of accessing it will be. For the purposes of their Final Tenders, Bidders were asked to assume certain pre-enquiry costs. Changes in these costs from the assumed levels is a Council risk.

Interoperability with Mersey Tunnels

- 4.3.41 As part of the public inquiry, the Council agreed with Merseyside Integrated Transport Authority (MITA) that the toll systems at the Mersey Gateway Bridge and Silver Jubilee Bridge and at the Mersey Tunnels will be interoperable.
- 4.3.42 During dialogue, principles relating to how this interoperability would work were agreed between the Council and MITA. The Bidders were required to ensure that their Revenue Collection Business Plans complied with these principles.
- 4.3.43 Detailed proposals which set out how these interoperability principles will be applied once the Mersey Gateway and SJB are operational will be developed during the construction phase of the Project between the Board, MITA and DMPA Co, including the business rules relating to customers who use both the Mersey Tunnels and the Project.
- 4.3.44 MITA is in the process of upgrading its tolling system and therefore it has not been possible to agree these detailed operational rules prior to Financial Close. A contingency of [REDACTED] has been included in the Council' budget to mitigate any increase in the DMPA Co's costs if changes in the toll collection system at the Mersey Tunnels result in a different interoperability arrangement that has been contemplated in DMPA Co's Final Tender.

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5 THE VALUE FOR MONEY CASE

5.1 Purpose

- 5.1.1 The Value for Money Case demonstrates the likely benefits and disbenefits of the scheme against its likely costs.
- 5.1.2 The Value for Money appraisal is broader than the Benefits Cost Ratio (BCR) metric; it also includes those impacts which cannot be monetised.

5.2 Value for money case

- 5.2.1 The Value for Money Case was presented in the OBC.
- 5.2.2 A report is attached to this FBC containing the results of a review of the VfM case in taking account of significant changes to the scheme scope, its costs and the technical appraisal guidance since the OBC submission. A number of runs of the Mersey Gateway transport model have been undertaken that incorporate these changes. Model output from these runs has been used to update the economic appraisal using TUBA. The scope of the review was developed in consultation with the Department.
- 5.2.3 The report is included in Appendix 5-A.

5.3 Social Distributional Impacts

Introduction

- 5.3.1 The OBC presented the results of the initial screening (Stage 0) summarised as follows:

Impact	Outcome
User Benefits	No further steps necessary for this impact. The impact relates to Personal Affordability as a result of tolls – see Affordability below for further steps/information required
Noise	No further steps necessary for this impact but further information required relating to evidence of impact.
Air Quality	No further steps necessary for this impact.
Accidents	No further steps necessary for this impact.
Security	No further steps necessary for this impact
Severance	No further steps necessary for this impact but further information required relating to provision for access across Central Expressway.
Accessibility	No further steps necessary but further information required relating to journey time improvements between key destinations.
Affordability	The key impact of the project is the impact on personal affordability as a result of tolls being imposed. Further information is required relating to the distribution of impacts on various income groups and the potential benefit of the Sustainable Transport Strategy in mitigating against tolling.

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Appraisal carried out to support the Full Business Case

- 5.3.2 To support the FBC the Council has carried out an appraisal of Social and Distributional Impacts (SDIs) for the project.
- 5.3.3 The appraisal was undertaken in accordance with WebTAG guidance published by DfT and specifically as set out in TAG Unit 3.17.
- 5.3.4 The appraisal report is presented in Appendix 5-B and covers:
- Background and scheme overview outlining the Mersey Gateway Project and its key components as well as detailing the seven strategic objectives underlying the Project
 - SDI process and appraisal methodology detailing the approach taken to assess each required SDI indicator and summarising the findings of the initial Step 0 screening;
 - Full appraisal of the eight SDI indicators detailing the outputs from the appraisal for each; and
 - Summary of findings describing the main outputs from the SDI appraisal in a matrix and summary text reflecting the published Appraisal Summary Tables (ASTs) of the Further Application Environmental Statement (FAES).

6 THE DELIVERY CASE

6.1 Purpose

6.1.1 The Delivery Case demonstrates how the Council will be able to deliver the scheme to time and budget, and includes the project plan, the governance arrangements and resources, the plans for stakeholder involvement and engagement, and robust risk management procedures.

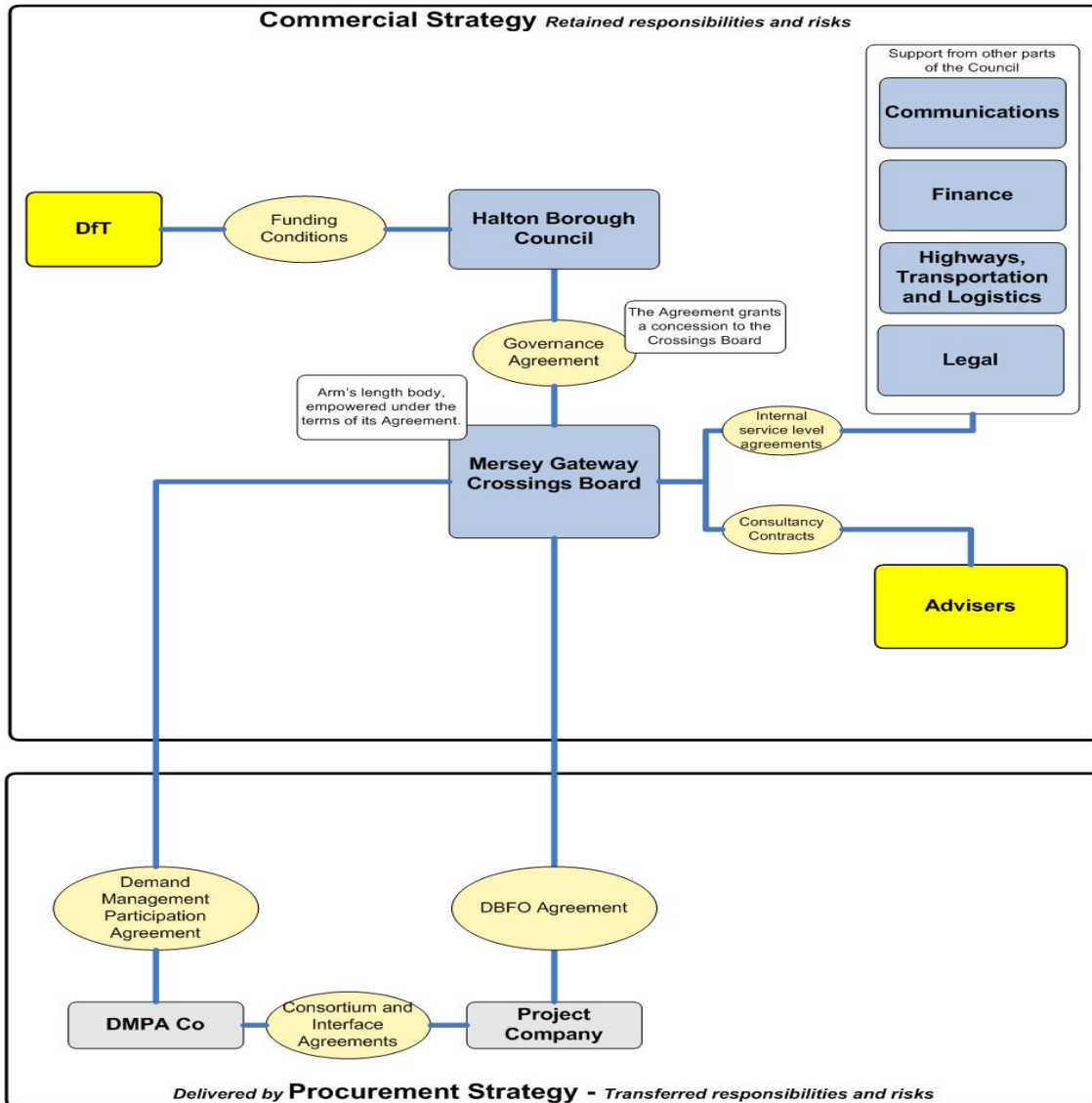
6.2 Introduction

6.2.1 The project delivery arrangements in the procurement stage were outlined in the OBC and are repeated in this FBC. The Delivery Case presented here focuses on the details of the post-Contract Award arrangements and the measures now in place to support the transition from the procurement stage to the construction and operation phases. The Council's strategy for managing the commercial (revenue) risk aspect of the Project in the post-opening phase is further described in the Commercial Case alongside the Commercial and Procurement Strategies since they are fundamentally aligned.

6.3 Post Contract Award Arrangements

6.3.1 As noted previously, the Council has developed an integrated approach to post-opening governance/commercial management, procurement process, and contracts strategy. This integrated approach runs through this Business Case and this part of the Delivery Case thus contributes to the 'business solution' described by the Commercial Case and Financial Case.

6.3.2 The post-contract award arrangements are illustrated below:



6.3.3 Refer to the Commercial Case for a description of the commercial strategy and the corresponding procurement and contract strategies.

6.4 Mersey Gateway Crossings Board

Introduction

6.4.1 Establishment of the Mersey Gateway Crossings Board is a key component of the Council's commercial strategy and the approach to managing the commercial risk associated with reliance on toll revenue.

6.4.2 The proposal to establish the Board was developed in advance of Conditional Approval and was an important factor in the Project receiving funding approval from DfT and at HMT Treasury Approval Point (TAP).

6.4.3 The DfT funding letter which confirmed Conditional Approval requires, in the funding conditions, the Council to establish and empower the Board which will have an

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independent capability to carry out its main tasks, which include acting as agent for the Council, acting as counterparty to both Project Agreement and DMPA, and managing toll revenues and grant revenue from the DfT.

Commercial rationale

6.4.4 The approach recognised that the Project will establish a complex public private partnership, which is reliant on toll revenue, and which requires a bespoke organisation to ensure the Council meets its contractual responsibilities, provides for sound financial management, and is effective in discharging its role in delivering the required Project outcomes; the Board is designed to meet that organisational need.

6.4.5 The establishment of the Board is, as well as being a component of this Delivery Case, a key part of the Commercial Case (see Section 7); it is central to the strategy for managing retained commercial (business) risks and the commercial rationale is the main driver for its establishment.

6.4.6 The Commercial Case describes the Board's commercial duties.

Governance Agreement

6.4.7 The Council and the Board will enter into a "Governance Agreement" to set out the terms under which the Board will manage the Project on behalf of the Council.

6.4.8 The Governance Agreement is included in Appendix 6-A-1. See the Commercial Case for further detail relating to the governance arrangements that have been established between the Council and the Board.

Good Governance

6.4.9 The Council's approach to its post-contract award arrangements, and in particular the post-opening governance arrangements will recognise that:

- Governance is about how the Council will ensure that it is doing the right things, in the right way, for the right people, in a timely, open, honest and accountable manner.
- Governance comprises the systems and processes, and cultures and values by which the organisation will be directed and controlled and through which it will account to and engage with the community.
- Good governance will lead to good management, good performance, good stewardship of public money and, ultimately, good outcomes for local people and service users.
- Good governance will enable the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk.

6.4.10 The governance arrangements will be aligned with the Council's Local Code of Corporate Governance and the Council's constitution. The governance arrangements will reflect the core principles of good governance (as applicable).⁹

- focussing on the purposes of the authority and on outcomes for the

⁹ Refer to CIPFA guidance
Full Business Case

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community and creating and implementing a vision for the local area;

- members and officers working together to achieve a common purpose with clearly defined functions and roles;
- promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- developing the capacity and capability of members and officers to be effective; and
- engaging with local people and other stakeholders to ensure robust public accountability.

Management arrangements generally

6.4.11 The Board's management arrangements will recognise that the Project Company's performance of the highway service, the DMPA Company's performance of the tolling service and, by association, the Board's management of the contract, will be vitally important as regards the service that is provided to users and the Borough.

6.4.12 One of the distinguishing features of the Mersey Gateway is the strategic importance of the crossings in the Borough; the two crossings will form the only physical road link between Widnes and Runcorn. The crossings will be emblematic of the Borough and in many ways the Project Company and DMPA Company will represent the Borough; certainly the through-traveller's only experience of the Borough will be the user experience of using the (new) crossing. The Project Company and DMPA Company's performance of the service and the Board's role will be an important part of the mission to provide a safe and efficient local network. The Council's Service Plan for highways makes the point that *the transport system is the Council's largest and most visible community asset for which it is responsible. It is used daily by the majority of people and is fundamental to the economic and social wellbeing of our communities and neighbouring areas. It helps to shape the character and quality of the local areas that it serves and makes an important contribution to the Council wider priorities, including regeneration, social inclusion, community safety, education and health.* This statement is arguably truer of the crossings than any other part of the Halton road network.

Mersey Gateway Crossings Board Shadow Running

6.4.13 The Delivery Case has been strengthened by the Council's agreement for an accountable shadow form of the organisation to be put in place and running during the transitional phase prior to the formalisation of the Board entity at Financial Close. The structure required for 'shadow running' has been in place since 1 October 2013.

6.4.14 Authority for the finalisation of the Governance Agreement was delegated to the CEO of Halton Borough Council in consultation with the Leader of the Council, the Operational Director of Legal Services and the Operational Director of Financial Services.

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- 6.4.15 The final Governance Agreement will need to be approved by Secretary of State, and then will be incorporated into the Articles of Association for MGCB by Financial Close.

Business Plan

- 6.4.16 The Crossings Board's Business Plan (2013 – 2017 Construction Phase) is included in Appendix 6-A-2. The Business Plan covers:

- The Strategic Business Objectives
- The Crossings Board Responsibilities and Delegations
- Organisation Structure
- Organisation Competence
- Business Management
- Risk Management
- Financial Management
- Financial Resources
- Board Contractual Arrangements
- Partnering Philosophy
- Performance Review

General contract administration duties

- 6.4.17 The contracts contain numerous obligations on the Council, dealing with both routine 'running of the contract' style tasks and also the many one-off events that may arise. It is recognised that PFI contracts are by their nature complex and will make wide-ranging demands on the Council. The toll operations, and in particular the demand management activities, will similarly make wide-ranging demands on the Council.

- 6.4.18 As regards the Project Agreement, in the design and construction phase, the Board will discharge the authority's management duties which will include:

- reviewing Project Company submissions in accordance with contractual procedures;
- monitoring the Project Company's performance;
- receiving and where applicable, responding to notifications, claims, reports, proposals, submissions, programmes, plans and other documents;
- dealing with discharge of Planning Conditions and the requirements of agreements with Interested Parties;
- dealing with land issues;
- liaising and co-ordinating with the Project Company and others;
- issuing permits and certificates to the Project Company;
- making and attending audits;
- administering the change mechanism;
- administering the compensation event mechanism;
- providing comments and advice on technical and contractual issues and making determinations;
- ensuring knowledge retention within the team.

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6.4.19 In the operation phase, the Board will discharge the authority's management duties which will include:

- monitoring the Project Company's performance and the operation and maintenance of the Project Facilities (including implementing the performance management regime and the asset management plan);
- administering the payment mechanism which puts into financial effect the allocation of risk and responsibility between the Board and the Project Company. The payment mechanism determines the payments made to the Project Company and establishes the incentives for them to deliver the Service. It matches payments to the outcomes and outputs that are required;
- monitoring the DMPA Company's performance and the provision of the Revenue Collection service
- making and attending inspections and carrying out audits;
- administering the change mechanism; and
- administering the compensation event mechanism

Operational Contract Management Manual

6.4.20 The Board will have responsibility for managing and administering the contracts from the time they have been formed at Contract Award, through to the end of the contract periods. In order to achieve this, the Board needs to ensure that, throughout the contract periods, all parties within the Board's organisation are working within agreed principles and guidelines. In particular, the Board needs to ensure that the relevant people are trained, prepared and able to take on these responsibilities from Day 1 of the contract periods.

6.4.21 The principles and guidelines required to manage the contracts will be captured in the Operational Contract Management Manual.

6.4.22 The Project Agreement and DMPA themselves are at the heart of the OCMM and all activities undertaken; they are the foundation upon which relationships are built, and compliance with them is fundamental.

6.4.23 The OCMM will be the Board's Contract Management Manual. It will include guidance on the contractual relationship between the Board and the Council as well as between the Board and the Project Company and DMPA Company.

6.4.24 The OCMM focussed on giving guidance to the Board's team to help them achieve the central aims of contract management activity. These are to ensure that, throughout the contract period:

- the Board's contractual position is protected;
- the agreed allocation of risk is maintained;
- best value is achieved;
- monitoring of the Project Company and the DMPA Company's performance against the output specification is undertaken;
- the implications of any failure to perform have been taken into consideration and appropriate action taken;

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- payment for the services is conditional upon the quality of performance;
- all service, including the Works, are delivered in accordance with the contracts;
- assets are maintained to an appropriate standard in accordance with the contract and consistent with good industry practice;
- continuous improvement in safety performance and service delivery is maintained;
- where change is necessary or occurs, its impact is properly considered before agreement;
- the Council and the Board fulfil their obligations under the Agreements;
- Best Practice, knowledge and experience of the project is recorded in a manner that is easily transferrable to incoming Project Team members.

6.4.25 The structure of the OCMM is as follows:¹⁰

Crossing Board & HBC

Part 0: Introduction to the OCMM

Part 1: The Mersey Gateway Project and Introduction to the Contracts

Part 2: Setting up and maintaining the Board's Project Team

Part 3: Managing the relationship with the HBC and others

Project Agreement

Part 4: Managing the relationship with the Project Company

Part 5: The Project Agreement

Part 6: Managing the Works under the Project Agreement

Part 7: Managing Service and Asset Management under the Project Agreement

Part 8: Board Protocols and Guidance (Project Agreement)

DMP Agreement

Part 9: Managing the relationship with the DMPA Company

Part 10: The DMP Agreement Priority 2

Part 11: Managing Operational Service under the DMPA

¹⁰ The structure follows the recommendations in the Local Partnerships “a guide to contract management for PFI and PPP projects”. This recommends that a manual such as the OCMM should cover all responsibilities and actions that the Crossing Board will need to carry out. Hence the inclusion of text relating to the relationship with the Council.

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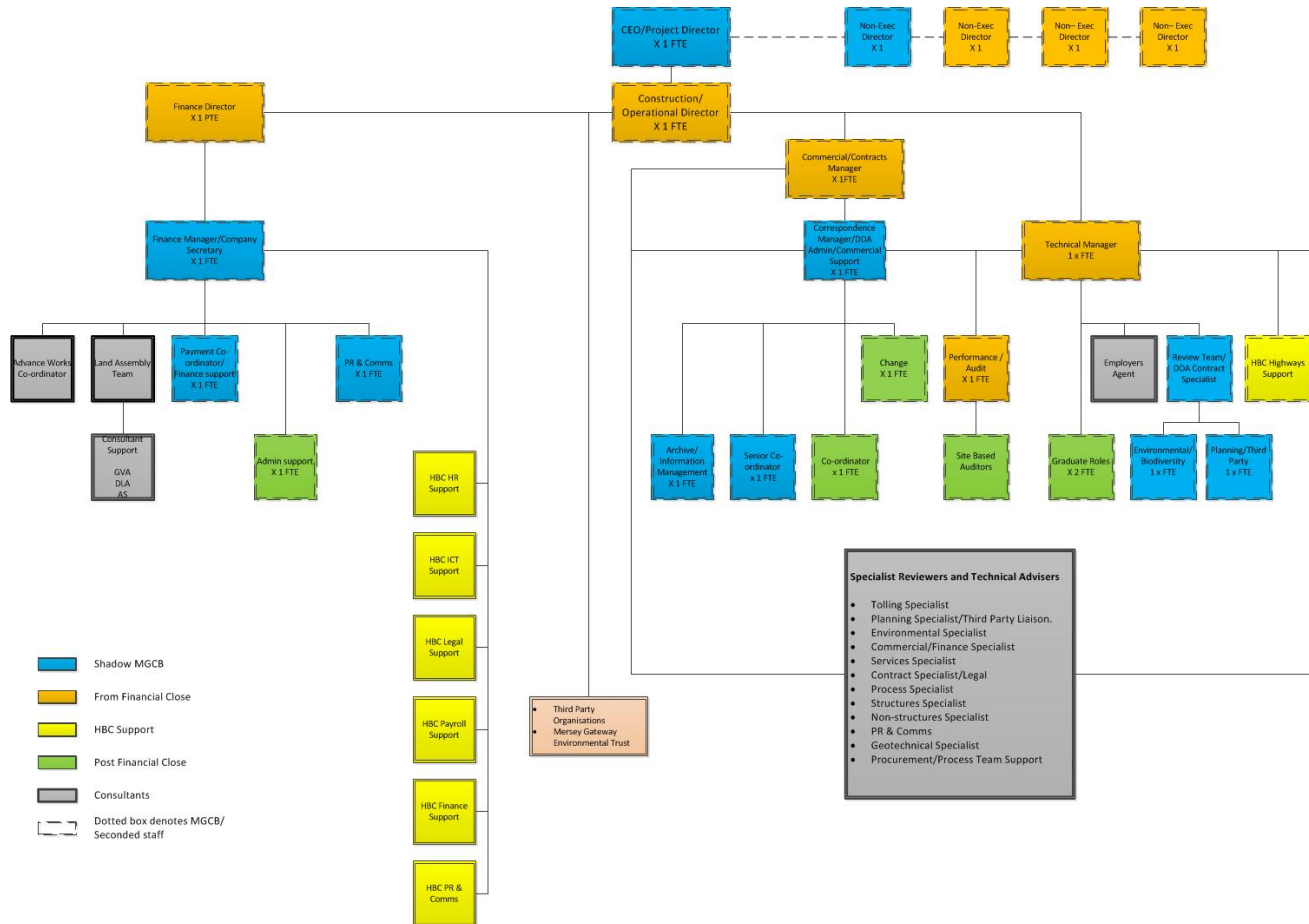
Part 12: DMPA Contract Administration

Part 13: Interface between the PA and DMPA

Board Team Structure

- 6.4.26 The Board's organisational structure for the shadow, construction and operational phases is shown below:

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Roles

6.4.27 The Board's Chief Executive, with the support of the Construction/Operational Director, oversees a dedicated core team. The role of each of the posts in the core team is detailed below:

Job Title	Role
Admin Officer	To provide general administrative support to MGCB.
Archive Officer	To ensure documentation and management systems employed by Mersey Gateway Crossings Board are kept up-to-date and maintained in required manner, and to deliver the archive elements of the project.
Auditor	To support both performance and technical advisors with responsibility for the auditing of the performance of the Project Company against contract with particular emphasis on key performance indicators.
Biodiversity & Environmental Officer	To devise, define, implement and monitor all aspects of biodiversity development work required to progress the Mersey Gateway project through the construction stage to ensure the Council's mandatory statutory responsibilities and obligations to third parties are carried out.
Change Manager	Provide advice and support to the Construction Director in respect of contract changes, including Alternative Proposals, Penalties, Company Works Changes and DBFO Co Works Changes, Termination Points. Responsible for monitoring a change register and ensuring changes under each contract are captured and properly considered and processed.
Commercial Contracts Manager	Accountable to the Construction/Operational Director, the Commercial/Contracts Manager is responsible for the management of all strategic contract activities under the PA and DMPA, ensuring that the Board's obligations under these contracts are achieved whilst managing any associated risks.
Construction Director	The Construction Director will provide leadership and strong project delivery control for this interesting and high profile project. They will be the Senior Officer at an operational level, with overall responsibility for the operational issues of the Board on a daily basis, together with the strategic duties in respect of construction matters.
Correspondence Manager	The correspondence procedure is an integral part of both the PA and the DMPA, ensuring that the Board complies with an extensive list of obligations under these contracts. The role of the Correspondence Manager is to ensure that the correspondence procedure under the contracts is adhered to. Provision of commercial support to the Commercial/Contracts Manager.

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Job Title	Role
Finance Director	To provide strategic oversight, leadership and management of the Operational Management Team of Mersey Gateway Crossings Board. Provide sound financial advice to the Board, advise and oversee the annual budget process and statutory accounts, together with maintaining a strategic overview of the Board's budgetary position throughout the year.
Finance Manager	To manage the delivery of the financial management services in support of the Board's priorities and obligations and to support the Finance Director in ensuring that proper arrangements exist in respect of the Board's financial affairs and that resources are utilised effectively. To undertake the duties of the Company Secretary in respect of the obligations of the Board under the Companies Act. To manage the completion of the financial aspects of the Land Acquisition programme.
Payment Co-ordinator	To assist and support the delivery of a wide range of financial management services in order to meet the Company's financial requirements, through supporting the Finance Manager.
Performance Manager	Support to the Contracts Manager through the provision of advice and contractual comment in determining and implementing the Company's strategy and approach to the management of the Project Company's performance under the PA and DMPA as applicable.
PR, Marketing & Communications Officer	Support the delivery of the marketing, communications and public relations strategy for the Mersey Gateway project in conjunction with the DBFO Co in order to enhance the project's reputation locally, regionally and nationally.
Review Manager	The review procedure in the contract requires the Company to comment within specific timescales on a wide range of technical and planning issues. The role of the Review Manager is to ensure that the review procedure under the contracts, including the Design Development Agreement, is adhered to.
Team Co-ordinator	Provide specialist support to the Commercial Contracts Team whose main functions are: <ul style="list-style-type: none"> • Ensuring that contract reviews are dealt with in agreed timescales • Capturing all contract changes, ensuring proper consideration and process Maintenance and control of all contractual correspondence.
Team Co-ordinator Senior	Provide specialist support to the Commercial Contracts Team whose main functions are: <ul style="list-style-type: none"> • Ensuring that contract reviews are dealt with in agreed timescales • Capturing all contract changes, ensuring proper consideration and process • Maintenance and control of all contractual correspondence

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Job Title	Role
Technical Manager	Reporting to the Construction Director, the Technical Manager will be responsible for motivating and managing a team of technical specialists and providing strategic management to the review process. Operational management of the Employer's Agent.
Third Party Liaison Officer	Halton Borough Council has entered into a number of agreements with third parties relating to the construction and operation of the Mersey Gateway. The Third Party Liaison Officer is responsible for ensuring that both the Project Company and the Council adhere to their contractual obligations. In addition the Third Party Liaison Officer will provide assistance to the Technical Planning in relation to planning matters as part of the review process.

Consultant Advisers

- 6.4.28 The Board will be supported by advisers who are able to mobilise, on an as-needed basis, the full range of technical and commercial skills necessary for the Council to discharge its obligations. The advisers' role would be developed based on the needs of the Board, focused on ensuring that the Project Company and DMPA Company take responsibility for, and manage the risks associated with, the design and construction and operation activities, while ensuring that the Board's interests are represented and protected.

Independent Certifier

- 6.4.29 The Project Agreement requires an Independent Certifier who is to be jointly appointed by the Board, the Project Company and its funders to certify certain elements of the Project. The responsibilities of the role are principally to provide independent sign-off of key stages of the works, including:

- The permit to use – that the crossing and associated road network and infrastructure is safe for use without traffic management restrictions; and that works have been completed in accordance with the Council's requirements.
- The works completion certificate – following the permit to use, to confirm that the works have been completed in all material aspects in accordance with the Council's requirements.

- 6.4.30 The Independent Certifier will also when and if necessary assist in the dispute resolution procedure.

Council Support

- 6.4.31 The Board will be supported in its role by other parts of the Council. The following service level agreements with the Council will be put in place during the shadow running phase:

- Support from Human Resources Department;
- ICT support (software & hardware);
- Legal support;
- Payroll;

- Finance support;
- Public relations and communications.

6.4.32 In addition to the above, the Board will include a technical support role who will act as a liaison between the Board and the Council's Highways and Transportation Division.

6.4.33 These support arrangements will be reviewed after an initial three year period.

6.5 Project Programme

6.5.1 The Preferred Bidder's programme is included in Appendix 6-B.

6.6 Risk Management

6.6.1 The risk management process is described in the Business Plan.

6.6.2 Copies of the Risk Registers are included in Appendix 8 to the Business Plan.

6.7 Benefits Realisation and Monitoring and Evaluation Plan

6.7.1 The Council has prepared a Benefits Realisation Plan for the Project. The objective of the Plan is to ensure that the forecast benefits of the scheme are realised.

6.7.2 The Council has also prepared a Monitoring and Evaluation Plan.

6.7.3 The Benefits Realisation Plan and Monitoring and Evaluation Plan together cover the activities to find out whether the expected benefits have been achieved and the responsibility for developing any "benefits realisation actions". The output of the Monitoring and Evaluation Plan will be used in determining whether benefits have been realised.

6.7.4 The Benefits Realisation Plan is included in Appendix 6-C-1. The draft Monitoring and Evaluation Plan is included in Appendix 6-C-2. An agreed version will be issued in due course.

6.8 Assurance and Gateway Reviews

Assurance Generally

6.8.1 Procedural and project management assurance is provided to the Council Chief Executive by procuring Gateway Reviews from Local Partnerships.¹¹ The Gateway Review programme for the Project is described below.

6.8.2 As regards technical assurance, the Project is subject to technical reviews by the Council's HT&L team (ie. the Senior User's team) as Highway Authority. Technical reviews were carried out in the course of the development of the Reference Design. Further reviews were carried out in the course of the procurement process and Preferred Bidder Period and will continue in the post-Contract Award (detailed design and construction) period.

Assurance – DfT and Treasury

6.8.3 The Project will be subject to a further Treasury Approval Process (TAP) prior to contract award.

¹¹ Formerly 4Ps

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Gateway Reviews

6.8.4 The Mersey Gateway Project has been the focus of three Gateway Reviews to date. These were undertaken in 2005, 2008 and 2011. In accordance with the Project Plan, the Project will be subjected to a further three Gateway Reviews over the course of the development, construction and operation of the scheme. The Gateway Review programme is as follows:

- Gate 0 – Strategic Assessment (completed July 2005)
- Gate 1 – Business Justification (completed February 2008)
- Gate 2 – Delivery Strategy (completed March 2011)
- Gate 3 – Investment Decision (October 2013)
- Gate 4 – Readiness for Service
- Gate 5 – Benefits Realisation

Gateway 0

6.8.5 Gateway 0 was undertaken in July 2005 in order to review the outcomes and objectives for the Project and confirm that they make the necessary contribution to the Authority's overall strategy. The 4Ps review team listed 13 recommendations following on from their findings. These were actioned by Halton Borough Council. The Gateway 0 reviewers' report was attached to the OBC.

Gateway 1

6.8.6 Gateway 1 was undertaken in February 2008 in order to confirm that the business case is robust, is affordable and likely to achieve value for money. Once again, the review team consisted of 4Ps members.

6.8.7 The review team found that considerable progress had been made in the development of the Project since the Gateway 0 review. The report also emphasised that the Project benefits from positive continuity at senior levels and a strong core Project Team. The Review Team noted that the Project Team had responded to the recommendations made at Gateway 0, had tracked the achievement of the recommendations and acted on a range of the issues contained, particularly in the project management arrangements, appointment of key project roles and also in governance arrangements. The report highlighted the need for continuous strategic management of the total risk exposure, the impact of the Project upon the Council and the challenging level of project resources. The review team listed 10 recommendations. The action plan from the Gateway 1 review was attached to the OBC together with the Local Partnerships reviewers' report.

6.8.8 Confirmation from the Section 151 Officer that Gateway 1 review recommendations have been addressed was included in the OBC.

Gateway 2

6.8.9 Gateway 2 was undertaken in March 2011. Gateway Review 2 took place on 8, 9, and 10 March 2011. The review was carried out by Local Partnerships. Gateway Review 2 confirms the readiness for procurement and the proposed approach to delivering the Project. The action plan from the Gateway 2 review is attached as Appendix 6-D together with the Local Partnerships reviewers' report.

6.8.10 The Local Partnerships Gateway Review 2 Report made 6 recommendations for improving project management and governance.

Gateway 3

- 6.8.11 The Gateway 3 review took place in November 2013. The Review Team commented that the Mersey Gateway Project is a good project which has demonstrated creativity and innovation. The Project Team has used advisers effectively to achieve a challenging programme which will contribute to national infrastructure. The Project Team has already started to implement the few recommendations which were made. A copy of the review report is included in Appendix 6-G.

6.9 Stakeholder Management and Communications

Introduction

- 6.9.1 This section describes the strategy for stakeholder management and communications going forward.
- 6.9.2 The OBC described the consultation history and demonstrated how key stakeholders were engaged in the Project's development and planning process.
- 6.9.3 The status of the stakeholder management process is included in Section 6.10. This demonstrates that the Project is well positioned for the next stage in its delivery.

Mersey Gateway Communications Strategy

- 6.9.4 The Mersey Gateway Communications Strategy (see Appendix 6-E) is intended as a working document and is accompanied by regularly updated action plans. It outlines key communications activities, roles and responsibilities to ensure that the Project communicates well with the stakeholders and can be successfully delivered.
- 6.9.5 MPs, local councillors, project partners, civil servants, landowners, local, national and specialist media and the Project team itself were involved during the development of this Strategy.
- 6.9.6 The objectives of the Strategy are to focus on achieving good quality consultation and an understanding of the Project so as to support its delivery and the wider regeneration of Halton Borough. The six objectives are as follows:
- To develop understanding that the Project is about more than just a bridge;
 - To build and maintain support and awareness of the Project amongst key stakeholders;
 - To secure relevant formal approvals for the Project from statutory consultees ahead of the public inquiry;
 - To ensure an open and transparent public inquiry process with minimal objections by identifying potential opponents of the Project and establishing ways to address their concerns;
 - To provide stakeholders with appropriate opportunities to feedback on, and contribute to, the progress of the Project; and
 - To engage and interest potential suppliers and contractors in tendering for the Project to ensure value for money.
- 6.9.7 The consultations that were carried out pursuant to the first five of these objectives are described in Appendix 4-A to the OBC.

6.9.8 The market engagement that was carried out is described in the Commercial Case.

Mersey Gateway Stakeholder Management Plan

6.9.9 In the course of developing the Mersey Gateway Communications Strategy, key stakeholders in Halton and across the North West, as well as key decision-makers and media organisations at a national level, were consulted. This included MPs, local councillors, civil servants, landowners, local, national and specialist media and the project team itself.

6.9.10 The objective of the Stakeholder Management Plan (SMP) (see Appendix 6-F) was to document and communicate how information will be disseminated to, and received from all stakeholders connected with the Mersey Gateway project up to achieving Financial Close. The SMP identified: who the stakeholders were; the requirements of each stakeholder; the requirements of the Project to receive information and/or obtain approvals from stakeholders; the means of communication with each stakeholder; the frequency and duration of communication; and the roles and responsibilities of the Project team in the implementation of the SMP.

6.9.11 The SMP identified stakeholders who are relevant to the project and classified them into groups in accordance with their needs. The main stakeholder groups were as follows:

- The Mersey Crossing Group (renamed the Mersey Gateway Group);
- Halton Borough Council Members known as Mersey Gateway Executive Board (MGEB)
- Funding partners
- DfT Major Projects
- Statutory consultees
- The wider public
- Members of the public who have expressed an interest in the scheme
- Landowners
- Directly affected landowners, leaseholders and tenants
- Individuals who are notified of the scheme's proximity through local land searches
- Small Businesses
- National, regional and local decision makers
- Environmental Organisations
- Other organisations, both public and private sector
- Potential suppliers
- Media

6.10 Status of the Stakeholder Management

Introduction

6.10.1 The Project Team developed a Communications Strategy in tandem with the Council's Corporate Marketing and Promotions Manager.

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- 6.10.2 The Communications Strategy is intended as a working document and is accompanied by a Stakeholder Management Plan and associated action plans which are intended to guide stakeholder engagement activities up to contract award. In the course of developing this strategy, key stakeholders in Halton and across the north west, as well as key decision-makers and media organisations at a national level, have all been consulted. This has included MPs, local councillors, project partners, civil servants, landowners, local, national and specialist media and the Project Team itself.
- 6.10.3 The Mersey Gateway Team has been engaging with numerous stakeholders since the early days of the project in 2001. The stakeholder engagement and consultation began in earnest when the project was given Programme Entry in 2006. Details on specific stakeholders and levels of consultation required are defined in the Communications Strategy 6.12.5. The consultation and stakeholder engagement undertaken so far can be divided into two clear phases:
- Consultation carried out over the period 2002-2006 leading up to the Department for Transport's confirmation of Programme Entry for the Project in March 2006; and
 - Following the Department for Transport's confirmation of Programme Entry for the Project in March 2006, the Council formed a Project Team to manage the planning applications and orders process in tandem with a community involvement programme. The preferred crossing option for the New Bridge was approved by the Mersey Gateway Executive Board on 18 June 2007 allowing for consultation to be undertaken between the period of June and September 2007.
- 6.10.4 The Project Team undertook further consultation and stakeholder management activities in 2011 prior to submitting revised planning applications.
- 6.10.5 The Communications and Engagement Strategy was updated in November 2012. The revised communications strategy (see Appendix E) should be seen as an adjunct to and development of the original Mersey Gateway Project communications strategy, which covered this period in outline detail, and is included as an appendix to this document.
- 6.10.6 This strategy outlines the recommended approach for the Mersey Gateway Project to communications and engagement activities from autumn 2012 through to the operational phase of the project after the opening of the Mersey Gateway Bridge.
- Post contract award arrangements***
- 6.10.7 The Preferred Bidder submitted a Public Relations and Communications Plan as part of their Final Tenders. The Plan is required to implement the Council's requirements. This submission will be contractualised. The Project Company will be responsible for a range of public relations and communications activities post-contract award with the Board working in a support role. The Preferred Bidder's public relations and communications plan is included within the Appendix 6-A-2.

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6.10.8 In addition, the DMPA Company will be responsible for a range of marketing, customer relations, public relations and communications activities. These are detailed in the Revenue Collection Business Plan.

Stakeholder Support for the Project

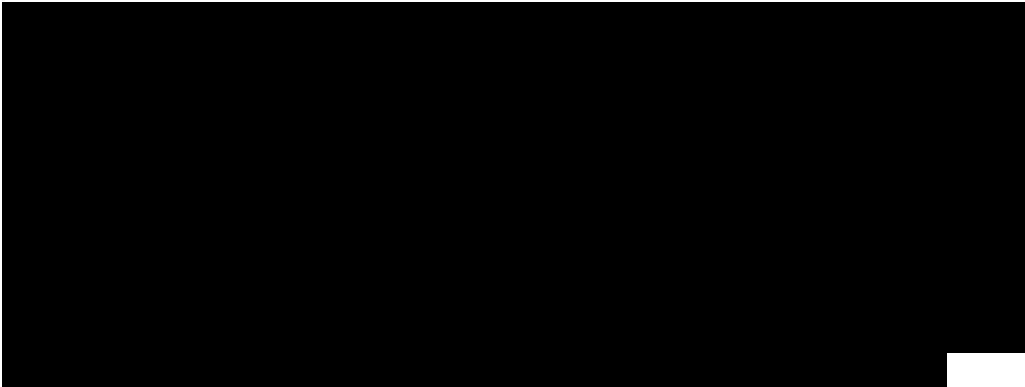
6.10.9 As noted in section 1.7, the Project has wide ranging support in the region and written statements of support are available from numerous stakeholders including neighbouring local authorities, businesses and regional bodies. The support for the project has been further enhanced by the Liverpool 2 and Atlantic Gateway projects, as the Mersey Gateway Project is seen as a key deliverable in order to support these schemes.

6.10.10 Whilst it is recognised that the Preferred Bidder will take most of the responsibility in relation to the delivery of the communications strategy and stakeholder management during the construction phase, the Board recognises the valuable contribution that the stakeholders have made in reaching Financial Close and the Board will continue to engage with the various stakeholder groups.


The Mersey Gateway Group



6.10.11 The Mersey Gateway Group acts as the key regional stakeholder group for the Project and serves to ensure that the wider stakeholder group is provided with an opportunity to influence project delivery when steering the project up to financial close. The Mersey Gateway Group was formed in 1994. It now meets every quarter and is chaired by the Council Leader. The Mersey Gateway Group was previously referred to as the Mersey Crossing Group; however, the role of the Group has not altered since its first inception.

Regulators and Statutory Bodies

6.10.12 

Third Party Agreements

6.10.13 

	
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[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

6.11 Land Assembly

Land Assembly Management

- 6.11.1 The land assembly workstream is led by the Senior Land Development Consultant (Alan Scarisbrick). The Senior Land Development Consultant is supported by Ian Coulson (Consultant), David Lyon from the Council's Economy, Enterprise and Property Division and Adviser GVA. Two surveyors have been seconded from the Council's Property Services Department to assist in the land assembly process in respect of the period between acquisition of property and handover of the property to the Project Company. In addition, the Mersey Gateway Land Acquisition Group (LAG) has been formed.

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- 6.11.2 The Senior Land Development Consultant is responsible for delivering the land assembly strategy.
- 6.11.3 The ultimate aim of the land assembly strategy is to deliver vacant possession of the land required to construct, maintain and operate the Project.
- 6.11.4 The total land area required to construct and operate the Mersey Gateway scheme, together with associated infrastructure and highway improvements, is approximately 156.74Ha. At the outset of the Project, the Council either owned or had a legal interest in approximately 62.4Ha. This land was made up, in the main, of existing highways, footways and verges together with disused plots such as part of the former St Michael's golf course at Widnes.

Pre-public Inquiry

- 6.11.5 In advance of the Public Inquiry, the Council sought to acquire the required interests in the remaining land by negotiation. This process was carried out in parallel with the planning and statutory powers process. The Council sought to achieve advance acquisition or the agreement of terms for a future purchase in accordance with the Land Assembly Strategy, presented at Public Inquiry. The approach adopted varied according to the circumstances of each case with particular emphasis on businesses requiring relocation. No residential properties are required to be acquired as part of the scheme.
- 6.11.6 In advance of the Public Inquiry the Council acquired the required interests in a further 1.5Ha of vacant land that was formerly occupied by local businesses.

Post Public Inquiry

- 6.11.7 In the period after Public Inquiry, the continuing land assembly strategy was to:
- Continue with the agreements for acquisition/relocation in accordance with the obligations within the agreements;
 - Completion of acquisitions/agreements where terms agreed;
 - Assess the remaining businesses for relocation where there is potentially a need to acquire in advance of CPO, to allow sufficient time to physically relocate, having regard to the need for early possession on complicated sites; and
 - Formulate land assembly strategy consistent with the procurement process and timetable.

Compulsory Purchase

- 6.11.8 The planning decisions and the confirmation of the various Orders and consents by the Secretaries of State on 20 December 2010 triggered the next stage in the land assembly process and the Council commenced the exercise of the relevant compulsory purchase powers enabled by the Compulsory Purchase Orders and the confirmed Order under the Transport and Work Act 1992. These powers allow the Council to acquire the remaining land which is necessary for the Project.
- 6.11.9 At the start of 2011, the Council served 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 CPO's were served with the formal notice regarding the compulsory purchase of their land interest. Notices relating to these orders were published in local newspapers and posted on various sites around the Borough on

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13 January 2011. In the following week, those land/business owners affected under the TWA Order were served with the formal notice regarding the compulsory purchase of their land interest. Notices relating to this order were published in local newspapers and posted on various sites around the Borough on 20 January 2011.

- 6.11.10 The Council has served a number of General Vesting Declarations (see below) in order to ensure that the land required for the scheme is under the Council's ownership or control by Financial Close.
- 6.11.11 The Team took a phased approach to the serving of the General Vesting Declarations, with a long lead time on GVD No. 4 in order to ensure that businesses had sufficient time to relocate prior to the Vesting Date of April 2013. A number of acquisitions were also undertaken by agreement where the owner did not want to wait until the proposed Vesting Date. Sufficient time was allowed between the Vesting Date of April 2013 and proposed date for Financial Close to ensure that all properties could be delivered with Vacant Possession.
- 6.11.12 Land assembly costs are funded by the 'land grant' from DfT; any gap between receipt of funding from DfT and payment to land owners is funded from the Council's reserves and/or borrowing (see the Financial Case).
- 6.11.13 The Council's land assembly strategy has ensured that all land required for the scheme is in the Council's ownership or agreements in place by Financial Close.

Status of the Land Assembly

6.11.14 [Redacted]

[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]



[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

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6.11.15 The Council has now served a total of eight General Vesting Declarations, six relating to the TWA Order and one each in respect of the two CPOs since the confirmation of Orders and Consents.

GVD	Area covered
<p>GVD No. 1</p> <p>Vesting Date 12/08/2011</p>	<p>Served in respect of Parcels 69-75, comprising of land and buildings at Ditton Road, Widnes. The GVD was served as part of this site is required for the relocation of the Ditton Road primary sub-station.</p>
<p>GVD No. 2</p> <p>Vesting Date 01/09/2011</p>	<p>Served in respect of Parcels 161-16, 167, 175-181, 198-202 and an Article 28 Notice in respect of the land required on temporary basis at parcels 166 and 173-174. A number of Notices of Objections to Severance were received, and all but one accepted by the Council.</p> <p>The GVD was served as there are advance works to be carried out on the site which need to be completed prior to the handover of the site to the Project Company.</p>
<p>GVD No. 3</p> <p>Vesting Date 06/12/2011</p>	<p>Served in respect of Parcels 79-80, 161, 163, 287-289 & 297, and Article 28 Notice in respect of land required on a temporary basis at parcels 286,290 & 298. Notices of Objections to Severance were received and accepted in respect of parcels 76-78, 286 and 298.</p> <p>The GVD was served to ensure that vacant possession in respect of potential advance works to be carried out on the site which needs to be completed prior to the handover of the site to the Project Company. Also included land where there are long lease obligations</p>
<p>GVD No. 4</p> <p>Vesting Date 10/04/2013</p>	<p>Served in respect of Parcels 88-92,125 -126, 131-146,161, 163-165, 185-187, 189, 272, 279 & 281 and Article 28 Notice in respect of land required on a temporary basis at parcels 271, 278 & 282. Notice of Objections to Severance were received and accepted in respect of parcel 282.</p> <p>The GVD was served in November 2011 with a long Vesting Date to ensure that vacant possession was obtained in respect of those properties where businesses needed to be relocated, giving them a sufficient period in which to locate alternative premises and relocate.</p>

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GVD	Area covered
GVD No. 5 Vesting Date 14/06/2012	Served in respect of Parcels 252-254 and a Notice of Objections to Severance were received and accepted in respect of parcel 255. 
GVD Queensway Vesting Date 29/01/2013	Served in respect of all of the land identified in The Halton Borough Council (The Mersey Gateway Order – Queensway) Compulsory Purchase Order 2008, with the exception of the land occupied by  where an agreement to allow the works to be carried out has already been entered into.
GVD Central Expressway Vesting Date 01/03/2013	Served in respect of all of the land identified in The Halton Borough Council (The Mersey Gateway Order – Central Expressway) Compulsory Purchase Order 2008.
GVD No. 6 Vesting Date 18/04/2013	Served in respect of 202 Parcels of Land, either by GVD or Article 28 Notice as applicable. Served in respect of land already in the Council's ownership, either historically or acquired by agreement in order to "cleanse the title" other minor interests and unknown interests were also included in this GVD.

The Crown Estate and the Duchy of Lancaster

6.11.16 The Project requires the acquisition of rights from The Crown Estate and the Duchy of Lancaster (the Queen) Estate in the Mersey Estuary; such acquisition falls outside the scope of statutory compulsory purchase powers. It is expected that both these agreements will be completed by Financial Close.

6.12 Advanced Works

6.12.1 The acquisition of land has enabled the Council to develop a programme of advanced works which include specific treatment of contaminated sites and advanced works and diversion of public utility plant. Details of this programme are given in Section 7.20.

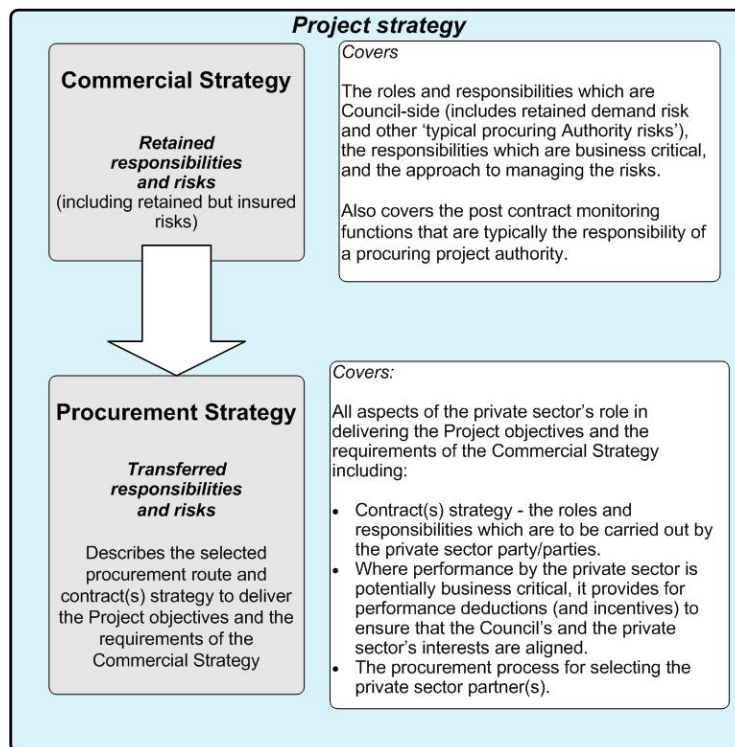
7 THE COMMERCIAL CASE

7.1 Purpose

7.1.1 The Commercial Case demonstrates a sound commercial (business) strategy for managing the Council's retained risks and a sound procurement and contract strategy which takes a rigorous approach to the private sector's role in delivering the Project objectives.

7.2 Overview

7.2.1 As described at Conditional Approval, the Commercial Case is based on two inter-linked components:



7.2.2 A comprehensive approach to risk management has been established which allocates appropriate risk to the private sector under best value terms and recognises where risk should be retained by the Council. The Commercial Strategy and the Procurement Strategy are integrated and together encompass the management of all Project risks (whether retained, transferred or insured).

7.2.3 The Council has taken an integrated approach to the areas of project structure, governance, contract strategy and procurement process to ensure the required Commercial Strategy and Procurement Strategy outcomes.

7.2.4 The Commercial Strategy and the Procurement Strategy (and the underlying contract) are described in detail in subsequent sections of this Commercial Case.

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7.3 Scope of this Commercial Case

7.3.1 This Commercial Case:¹²

- Describes the Council's Commercial Strategy;
- Describes the complementary Procurement Strategy;
- Describes the procurement process which was carried out which has delivered on the procurement objectives;
- Describes the proposed Project Agreement and risk allocation;
- Describes the proposed Demand Management Participation Agreement (DMPA) and risk allocation;
- Describes a number of key features of the Agreements;
- Describes the approach to the works on the SJB and the status of the major maintenance scheme funding approval;
- Describes the Council's strategy for advance works.

¹² Note that land assembly is covered in the Delivery Case
Full Business Case

7.4 Commercial Strategy

Introduction

7.4.1 The Commercial Strategy:

- explains how the Council intends to manage its retained risks (i.e. project risks not transferred to the private sector in the Agreements), and
- sets the complementary and supporting objectives for engaging the private sector (i.e. the objectives of the Procurement Strategy),

in the delivery of the Project, and describes the positions reached on aspects of critical commercial importance.

Background

7.4.2 The background to the Commercial Strategy, and in particular the need for the Council to retain revenue risk, was detailed in the OBC and is not repeated here.

Project Commercial Objectives

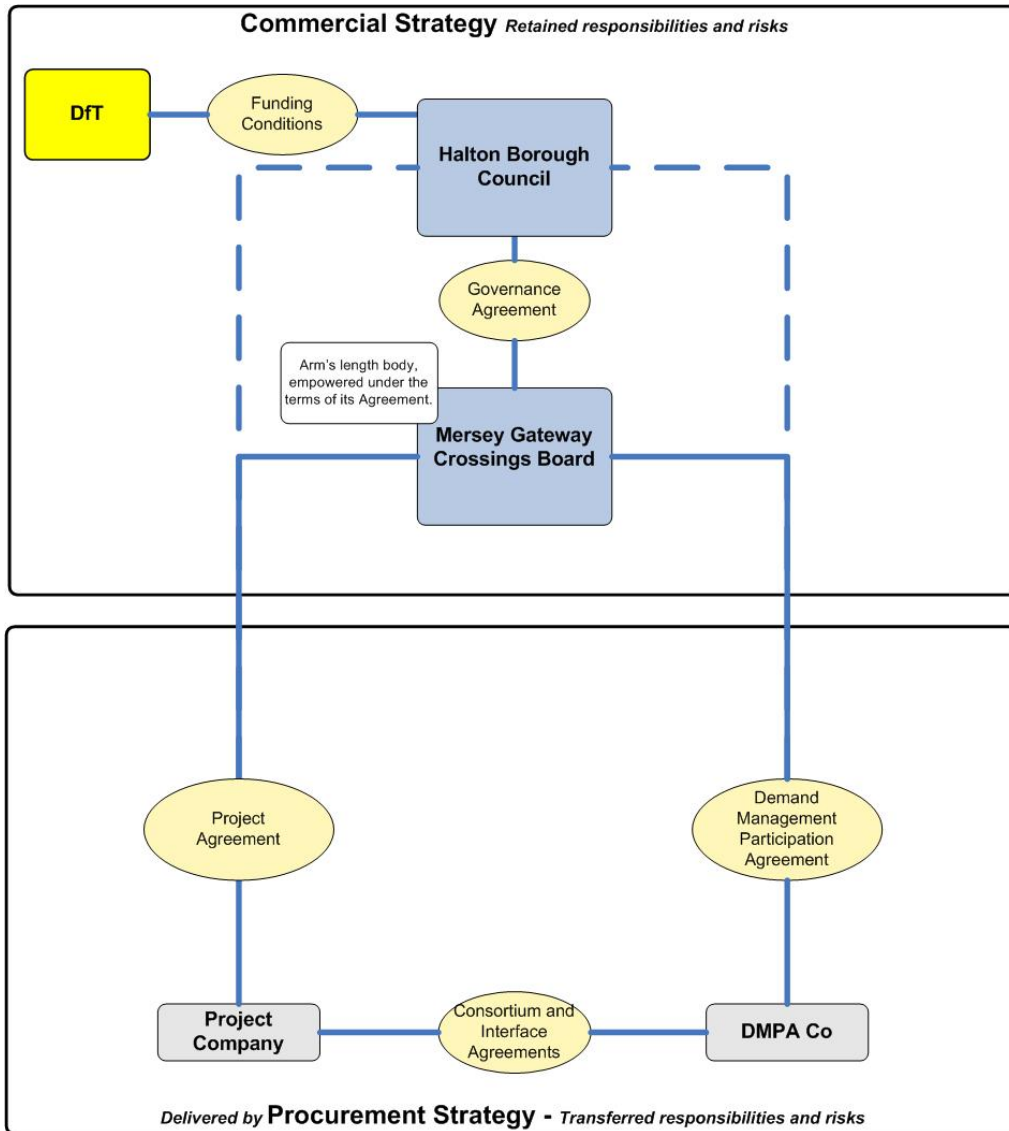
7.4.3 The Project's commercial objectives are as follows:

- to establish a contractual relationship with the private sector that delivers Mersey Gateway at best value for money;
- to integrate the asset service with the toll operator service expertise to support the Council to manage retained demand risk within the constraints of the legal powers;
- to operate a toll concession scheme, within the limits of affordability, so as to mitigate the impact of tolls on local users who are currently able to use the SJB free of charge, many of whom are frequently crossing the river and some fall within social inclusion target groups; and
- to ensure the delivery of transport and environment benefits, by maintaining free flow traffic conditions on the Mersey Gateway and SJB and delivering priority for public transport on the SJB.

Overview of the Council's Approach

7.4.4 The Council has developed an integrated approach to governance, procurement and contracts strategy which is designed to deliver on the commercial objectives. The Council's approach is illustrated and described below.

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- 7.4.5 The Board will manage the Project for the Council as its agent as anticipated by the Conditional Award.
- 7.4.6 The Council and the Board will enter into a Governance Agreement which prescribes the roles and responsibilities of the parties.
- 7.4.7 The Board will enter into a 'standard' (or 'conventional') DBFO contract (the Project Agreement) with the private sector for the provision of the Mersey Gateway infrastructure. Importantly, the Agreement is on an 'availability basis' and the Project Company will not be exposed to demand risk.
- 7.4.8 The Board will enter into an Agreement for toll operator services (the DMP Agreement).
- 7.4.9 Further, under the DMP Agreement, the toll operator will be incentivised to provide strategic advice to the Board on setting and collecting tolls, devising and implementing discount structures and overall demand management. Procurement

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of private sector expertise supported by an appropriate upside incentive arrangement was identified as a key objective in the procurement. The principal advantages are:

- the private sector interest will be more fundamentally aligned with the Council's and, as regards the funding conditions, DfT's;
- the extent to which bidders are willing to take account of potential upside in their pricing gave insight into how robust the bidders feel the Council's traffic forecasts are and provides the Council with an element of private sector due diligence;
- the arrangement will harness the private sector's skills and global experience in managing user demand, setting toll and discount/exempt structures and operating open road toll collection systems to support the Crossings Board in maximising public sector value for money.

7.4.10 The establishment of the Mersey Gateway Crossings Board is a key component of the Council's Commercial Strategy.

7.4.11 The Project Agreement and DMP Agreement (and the roles of the Project Company and DMPA Company) are described in more detail in Section 7.9 [Procurement Strategy] and subsequent sections.

Changes from the OBC – toll operations and DMPA

7.4.12 In the OBC, the Project Company was to be responsible for all aspects of toll operations on both Crossings (roadside toll collection, back-office and customer service) whilst the DMPA was only intended to create a clear incentive structure for a private partner to help manage the demand risk retained by the Council through the provision of tolling strategic services. The DMPA also provided the opportunity for the DMPA Company to make an investment in the Board in exchange for share of surplus toll revenues.

7.4.13 The Council changed its approach in advance of procurement and under the draft Project Agreement and draft DMPA issued to Bidders at the start of the dialogue, the Project Company retained responsibility for the operation and maintenance of the roadside tolling equipment, but responsibility for operating and maintaining all other aspects of the revenue collection system was transferred to the DMPA Company.

7.4.14 Enforcement and violation risk was also transferred to the DMPA Co as the DMPA Company would be required to reconcile 100% of theoretical toll revenues to the Council.

7.4.15 DMPA Co would remain responsible for the provision of strategic advice to the Board on demand management, including devising and implementing economic discount structures and demand management as per the OBC. The term of the DMPA was also shortened from 30 years to an initial term of 7 years (with extension rights).

7.5 UK Guarantees

Introduction

7.5.1 Since OBC, HMT has introduced the UK Guarantee Scheme to assist with the delivery of infrastructure projects. In December 2012, HMT confirmed Ministerial approval of the prequalification of the Project under this scheme.

7.5.2 Support for the Project under the UK Guarantee Scheme as follows:

- A guarantee for up to 50% of the Project Co's senior debt; and
- HMT will provide a letter to the Project Co under which HMT undertakes to ensure that at all times throughout the duration of the Project (including with respect to termination compensation obligations following the early termination of the Project), an amount equal to (1) the Annual Availability Support Grant and (2) the base case toll revenue forecast in the OBC will be made available, to the extent necessary, so as to enable the Council to discharge its obligations under the project documentation in a timely manner.

7.5.3 The guarantee of up to 50% of the Project Co's senior debt has ensured that there is sufficient long term project finance debt available in the financing market to allow the Project to be financed.

7.5.4 By maintaining 50% of the Project's funding from private sources, the Project has retained the benefits of the due diligence carried out on the Project by commercial lenders and also the oversight that these institutions will provide over the life of the Project.

7.5.5



7.6 DfT counterparty support

Introduction

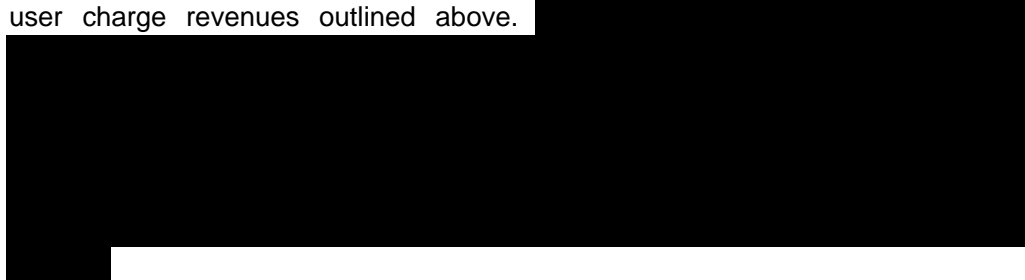
7.6.1 As previously highlighted, DfT subsequently put in place arrangements which further improved the robustness and deliverability of the Project, namely the provision of Additional Availability Support Grant in the event that actual toll revenues are less than those forecast in the OBC and as a result the Council is unable to fully meet its obligations under the Project Agreement and DMPA.

7.6.2 The DfT will provide the Additional Availability Support Grant, either in the form of a grant or loan, to the Council or the Board to enable the Council or Board to meet their obligations under the Project Agreement, DMPA, prudential borrowing interest cost or other direct project costs in a timely manner. The Council and the Board will provide to the DfT an annual rolling five year look-forward projection of the Availability Support Grant and the toll revenues and costs under the Project Agreement and DMPA to allow the Council, the Board and the DfT to assess the need for any Additional Availability Support Grant.

7.6.3



7.6.4 In addition to the mitigation measures set out in 7.6.3 above, the Council and the Board shall use reasonable endeavours to agree a rectification plan with the DfT setting out such additional measures required to remedy any shortfall in toll/road user charge revenues outlined above.



7.6.5 The measures set out in paragraphs 7.6.3 and 7.6.4 are not required to be implemented as a condition for the receipt of the Additional Availability Support Grant or to cover funding shortfalls in payment of procurement savings. These measures will be kept in place until any Additional Availability Support Grant provided as a loan is repaid or such earlier time that the DfT agrees that the measures can cease.

7.7 The Mersey Gateway Crossings Board

Introduction

7.7.1 The Council's governance arrangements are designed to:

- ensure that the Council can perform the roles and responsibilities required to effectively manage its retained risks; and
- ensure that the Council can perform its various duties as a party to the Contract including carrying out contract administration and monitoring functions.

7.7.2 The Mersey Gateway Crossings Board ("MGCB" or "Board") is a special purpose vehicle and will act as agent for the Council. Together with the Council, it will be a counterparty to both the Project Agreement and the DMPA.

7.7.3 This section describes the commercial aspects of the Board. It should be read in conjunction with the relevant sections of the Delivery Case.

Reasons for the Board

7.7.4 The Board is required in order to:

- comply with the Conditional Approval funding conditions as detailed in the DfT Funding Letter

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- give transparency and ensure income streams and costs can as far as possible be kept separate from the rest of the Council's day to day business,
- allow suitably skilled and experienced persons to manage the day to day running of the 'crossings business' in an efficient and effective manner, ensuring risks retained by the Council are managed appropriately and to protect the financial interests of the Project,
- participate in the Availability Grant Review Procedures under the funding conditions,
- provide a focal point for local and national stakeholder engagement.

7.7.5 The Board is a separate legal entity, independently staffed, thus ensuring it has expertise dedicated to managing the Project supported by advisers with the right skill sets and experience at appropriate stages over the life of the Project. It will operate as a commercial (though not for profit) organisation on an arms length basis with the Council. It will manage the Project as the Council's agent in an efficient and effective way to ensure at all times that it assists the Council in meeting its financial and operational responsibilities pursuant to the terms of all the Project Documents.

7.7.6 In carrying out its obligations the Board shall have regard the Council's obligations under the DfT Funding Letter and to the Council's Project objectives.

Board set up

7.7.7 The Board is a company limited by shares, 100% owned by the Council. The special purpose vehicle has been formed in accordance with the Council's constitution and any relevant rules for setting up subsidiaries. Changes to the way the Board operates under its memorandum and articles may be proposed from time to time but any material changes or alterations to the Governance Agreement will have to be agreed by DfT and, during the period of the Project Agreement and the DMPA, not without the consent of the counterparties to those agreements (the Project Company and the DMPA Company).

7.7.8 Users of the Crossings will still identify the Council as the owner of the bridge. The Board will be the Council's agent, effectively providing the main link and focal point for local and national stakeholder engagement. To the Council, central government and the private sector and its funders, the Board will be an informed and expert client, managing the Project on behalf of the Council.

7.7.9 The Governance Agreement between the Council and the Board will become effective at Financial Close.

Powers and Delegations

7.7.10 The Council will delegate to the Board, to the extent required for the performance of its obligations under the Governance Agreement, the Project Agreement and the DMPA, relevant powers, rights and obligations that the Council has under the Orders.

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- 7.7.11 In addition, to the extent required under the Project Agreement or the DMP Agreement, the Council will delegate relevant powers to the Project Company or the DMPA Company. Should it be necessary and the counterparties to the various agreements change due to termination or assignment, the Council will also agree that it may also delegate to any successor company.
- 7.7.12 As sole shareholder of the Board, HBC will retain control over decisions outside the delegations.
- 7.7.13 The Governance Agreement includes a list of “Restricted Matters”. These are items which for ease of reference are colour coded: Red Matters which MGCB may not undertake without obtaining the consent of HBC and Orange which require consultation.
- 7.7.14 The (Red) Restricted Matters which require HBC consent include varying tolls by more than the pre-agreed parameters or providing advice to other toll operators for profit.
- 7.7.15 The Board and the Council will enter into the Project Agreement with the Project Company and the DMP Agreement with the DMPA Company and Sanef SA. The Board will be responsible, on behalf of the Council, for the day-to-day operation and management of the Project Company and DMPA Company under the respective agreements. The Council will be primarily responsible for making the payments due under the Agreements; toll revenue is paid into a Council account and defined as Council revenue in order to preserve the assumed VAT treatment of tolls in the Project’s financial case.
- 7.7.16 In addition, the Council will be liable to the Project Company under the Project Agreement for any payments due to the Project Company by the Board and to the DMPA Company under the DMP Agreement for any payments due to the DMPA Company by the Board which are not paid by the Board. Should the Board fail to comply with its payment obligations under the DMPA, the Council would need to ensure their performance, by it or the Board, or be liable to the DMPA Company for any payments due as a result of such non-compliance.

Tolling

- 7.7.17 The Board will act as agent and not principal in matters relating to tolling of both the Mersey Gateway Bridge and Silver Jubilee Bridge. As the Council’s agent, however, it will be able to set and vary tolls, including providing for local discounts, within pre-agreed parameters based on the levels shown under the Base Case financial model. [REDACTED]
- 7.7.18 The Board may recommend the levels of tolls to be set outside these agreed parameters but these will be Restricted Matters and require consent from the Council.
- 7.7.19 The Council will have obligations to renew or replace any tolling or enforcement orders which expire, as required during the life of the Project for both the Mersey Crossing and the Silver Jubilee Bridge.

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- 7.7.20 The DMPA Company has provided a detailed business plan as part of its bid (the Revenue Collection Business Plan). This Plan will be enshrined in the DMP Agreement and allow the DMPA Company to operate without interference provided the plan is being followed and the revenues are as anticipated (being between the Base Case and Band 1).



Oversight arrangements

- 7.7.21 Up to Financial Close, the Council, DfT and Treasury will all have oversight on the Project. Up to Financial Close the Officer Project Board (OPB) will continue to meet on a periodic basis and receive regular reports on progress from the Board.
- 7.7.22 From Financial Close, the Board will operate the Project as envisaged under the delegations given by the Governance Agreement and the Project Agreement and DMPA. It will supervise the building of the crossing and once construction is completed the collection of the tolls. From Financial Close onwards the Board will produce annually a business plan (the Annual Business Plan) showing the next year's projected income and expenditure in detail and the following 5 years income and expenditure with less detail. It will show clearly how the "Liquidity Maintenance Reserve" required by the DfT funding letter will be established prior to the introduction of tolls.
- 7.7.23 The Board will provide reports to the Council on construction progress and cost and other agreed KPIs on a six monthly basis. There will be trigger points for the Council to take action should certain KPI's not be met or if progress falls behind programme or any material breaches of the Governance Agreement or the Project Documents has occurred or is likely to occur.
- 7.7.24 From Financial Close the oversight arrangements required by DfT will be as set out in the DfT Funding Letter and the Board will provide quarterly reports in the form required by DfT. The Availability Support Grant will be adjusted as set out in the DfT Funding Letter.
- 7.7.25 During operation, the Council will have increasing additional rights of audit, requirements for rectification plans and eventual step in or termination if revenues are not in accordance with forecasts or if the Board fails repeatedly to meet KPIs or commits material breaches of the Governance Agreement that are not capable of rectification. If at any point the Council believes that, on the information they have been given, it would not be possible for the Board to meet its objectives then the Council will advise the Board of its concerns and seek prompt resolution.

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7.8 Procurement Strategy

7.8.1 The Procurement Strategy is summarised below.

Objectives set by the Commercial Strategy

7.8.2 As noted previously, the Procurement Strategy covers the approach to engaging the private sector in the delivery of the Project. The objectives are complementary to and support the Commercial Strategy objectives. The Commercial Strategy defines the following outcomes which the Council secured by its Procurement Strategy:

- to procure the construction of the Mersey Gateway bridge, highway and tolling infrastructure at best value through a design build finance and operate contract which transfers whole life cost and service delivery risk to the private sector; procured through the Project Agreement
- to procure toll operator services to deliver a high quality service to users; and procured through the DMPA Agreement
- to secure a commercial arrangement with the private sector that supports the Council in actively managing toll revenue through participative support in determining the tolling strategy and other commercial aspects of the crossings business. procured through the DMPA Agreement.

7.8.3 Other Commercial Strategy outcomes which are to be secured by the Procurement Strategy are:

- to deliver a high quality service to customers and provide a positive customer experience. Quality of service is considered to be key in growing traffic particularly in the ramp-up period; and
- to reserve sufficient flexibility in the contractual arrangements to allow for changes during the operating phase.

Procurement Route

7.8.4 The Council has procured the Project as a privately financed project. The project is suitable for this procurement route since:

- there is a major capital investment programme, requiring effective management of risks associated with construction and delivery;

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- the private sector has the expertise to deliver and there is good reason to think it will offer value for money;
- the structure of the service is appropriate, allowing the public sector to define its needs as service outputs that can be adequately contracted for in a way that ensures effective, equitable and accountable delivery in the long term, and where risk allocation between public and private sectors can be clearly made and enforced;
- the nature of the assets and services identified as part of the privately financed scheme are capable of being costed on a whole-life, long-term basis;
- the value of the project is sufficiently large to ensure that procurement costs are not disproportionate;
- the technology and other aspects of the project are stable, and not susceptible to fast-paced change;
- planning horizons are long-term, with assets intended to be used over long periods into the future; and
- robust incentives on the private sector to perform can be set up.

7.8.5 Qualitative and quantitative value for money assessments of the privately financed procurement route are included in sections 7.17 and 7.18

Delivering Value

7.8.6 The primary objective of the procurement strategy was to deliver the infrastructure at minimum cost.

7.8.7 Capital cost was tightly controlled in the development (planning and powers) stage. In addition, the Council carried out a value engineering exercise in 2009. Further value engineering and a 'cost challenge' which were carried out in June/July 2011 (in the process of obtaining Conditional Approval) delivered further savings. The Council intended to secure further savings in the procurement process.

7.8.8 The Council's approach to delivering value in the procurement process encompassed:

- adopting a price focussed evaluation model – where competition drove value;
- defining output based requirement, avoiding over-specification and allowing flexibility;
- encouraging and giving opportunity for innovation. The Council's approach recognised that there is considerable potential in flexibility, allowing bidders to make design choices that mitigate risk (and reduce risk pricing) and allow them to adopt efficient, economic construction methodology.
- managing the planning constraints. Flexibility was not unlimited and planning conditions and the TWA Order needed to be considered. A complementary planning strategy was developed to avoid planning risk being a deterrent to innovation.
- producing a design guide to focus bidders on the deliverable opportunities;

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- adopting a contract strategy which drives value. The DBFO contract transfers whole life cost and service delivery risk to the private sector.

7.9 Procurement Process

7.9.1 This section describes the procurement process carried out by the Council.

7.9.2 The Council designed the procurement process to deliver on its procurement objectives (see above) while discharging its obligations under procurement Regulations.

Successful procurement phase

7.9.3 This section highlights:

- the success of the market consultation phase which secured a high level of market interest and ensured that the project was an attractive proposition;
- the successful application of a prequalification process which down-selected, on the basis of objective criteria for scoring and ranking Candidates, contributing to an efficient, single-stage competitive dialogue process;
- the successful application of the competitive dialogue process which secured value for money bids; and
- the achievement of the procurement milestones in line with the originally published programme.

Lessons Report

7.9.4 Note that while this section highlights some of the successful aspects of the procurement process, a formal 'Lessons Report' will be produced:

- in support of the 'Process Evaluation' area of the Project's "Monitoring and Evaluation Plan" as required by DfT's Local Authority Major Schemes programme (refer to the Delivery Case);
- in support of the close-out of Stage 3 (Procurement) of the Project Plan (refer to the Project Initiation Document (PID));
- as a matter of best practice pursuant to one of the Project's procurement objectives "for the project team to demonstrate a class-leading performance in the delivery of the project".

7.9.5 The Lessons Report is designed to: capture any lessons that can be usefully applied to other projects; ensure that positive lessons become embedded and that any negative lessons may be avoided.

General

7.9.6 The procurement process was conducted in accordance with the provisions of the Public Contract Regulations 2006 and Council Directive 2004/18/EC relating to the procurement of public works contracts. The procurement competition was conducted under the competitive dialogue procedure.

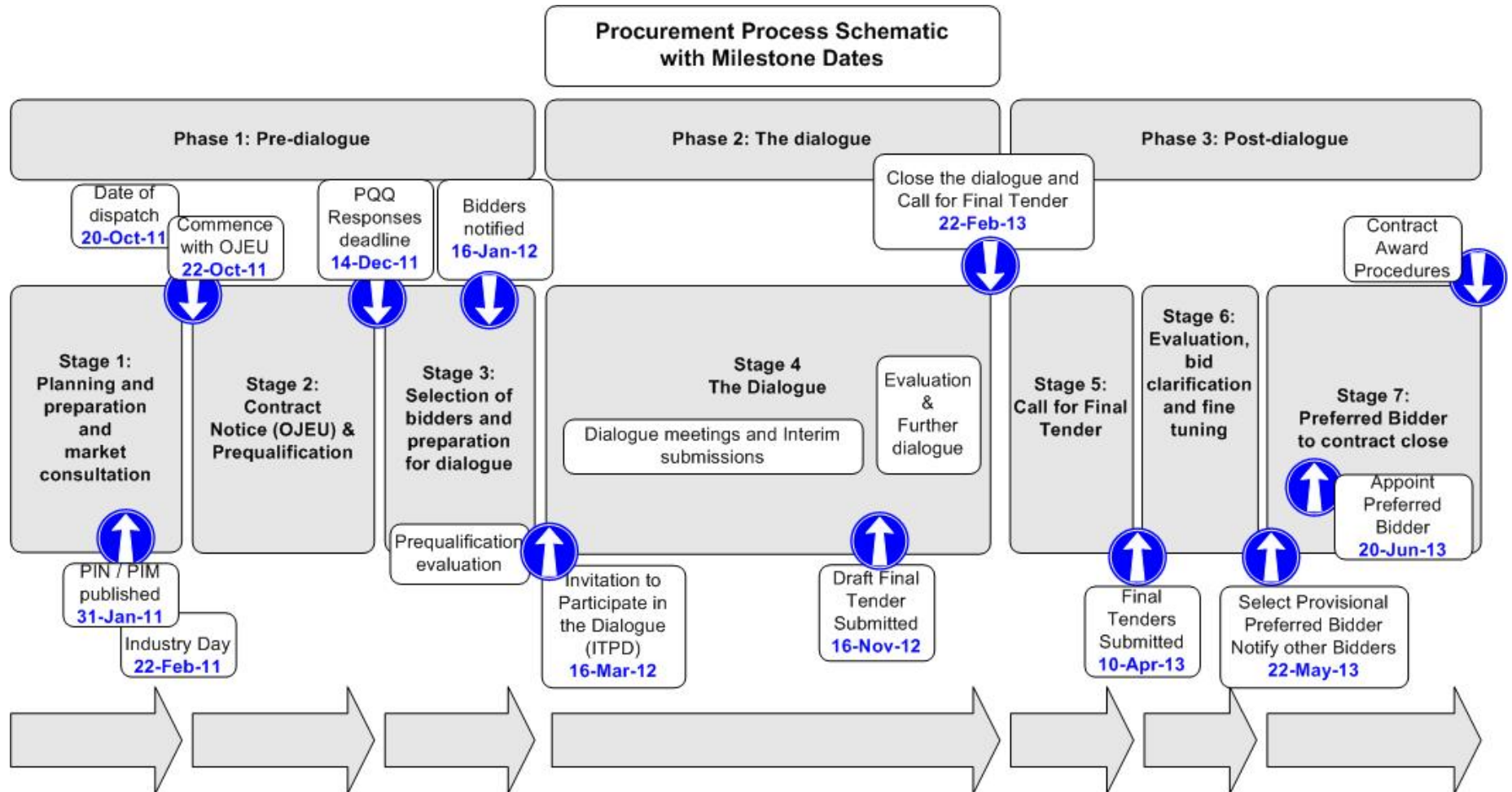
Timetable

7.9.7 The stages in the procurement process and the actual dates of key milestones are illustrated below.

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Market consultation

7.9.8 The market consultation is described in detail in the OBC (section 7.14). As detailed therein, the Council actively engaged with the market throughout the development of the Project. Formal, pre-procurement stage market engagement was launched at the end of January 2011 and an Industry Day held on 22 February 2011. The market consultation was launched with a Prior Information Notice (PIN) in the OJEU; a Project Information Memorandum (PIM) was made available. The PIM invited feedback on a number of specific aspects of the Council's approach to the Project.

7.9.9 Market interest was found to be high and the feedback on the proposals in the PIM was positive. As of March 2011, six strong potential bid groups had formed. Of particular interest was that the Council's message on the importance of the teams bringing tolling competence (in particular 'business competence') was seen to have influenced the make-up of the groups and resulted in some late changes and additions. Potential bid groups included a number of European organisations traditionally associated with operating toll road concessions.

Contract Notice

7.9.10 A public works Contract Notice was published in the Official Journal of the European Union (the 'OJEU Notice') inviting parties interested in being awarded the contracts for the Project to apply to prequalify to be invited to tender (dated 22 October 2011, reference 2011/S 204-332052, date of dispatch 20 October 2011).

Prequalification

7.9.11 A Prequalification Document, including a Prequalification Questionnaire (PQQ), was made available on request. The Document provided prospective Candidates with:

- an overview of the Project, including a description, details of the Project objectives, and details of the commercial aspects of the Project;
- details of the overall procurement process;
- detailed information about the prequalification stage, guidance on the PQQ, and details of the prequalification evaluation that would be carried out by the Council on PQQ submissions; and
- instructions and administrative requirements for the prequalification stage including detailed submission instructions.

7.9.12 The purpose of the prequalification stage was to identify the Candidates that would be most likely to deliver economically advantageous tenders. Candidates were required to make a PQQ Submission, comprising a completed PQQ with supporting information. The purpose of the PQQ was to elicit information from the Candidates to allow the Council to assess their technical capability and financial and economic standing and also establish that the Candidate had the appropriate experience, qualities and resources to undertake the Project. The aim was that the Candidates selected as Bidders would be those that had exhibited a high degree of technical, financial and management ability, and had demonstrated strong experience in relation to the particular demands of the Project.

7.9.13 The Prequalification Document included details of the evaluation criteria that would be applied to the PQQ submissions. Each submission would be evaluated, on a

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pass/fail basis, by reference to the mandatory exclusion criteria stated in the Public Contracts Regulations 2006, and also its stated minimum criteria for economic and financial standing. Where the Candidates met these criteria, the Council would apply further objective and non-discriminatory criteria to assess the Candidates' technical and professional experience, qualities and resources relating to:

- delivery of PPP projects, design and construction of major bridge and highway schemes and operation and maintenance of major bridge and highway schemes;
- delivery of tolling services;
- delivery of demand management and tolling policy services;
- raising private finance; and
- management systems.

7.9.14 The prequalification evaluation model provided for Candidates to be ranked on the basis of their responses in these areas, allowing the Council to down-select at the prequalification stage; this was an important aspect of the Council's approach to running an efficient dialogue stage (avoiding having to take six Bidders into the dialogue stage and then down-selecting during the dialogue).

7.9.15 The deadline for PQQ Submissions was 14 December 2011.

7.9.16 Submissions were received from six strong Candidate consortia comprising large, international contracting and tolling organisations. All Candidates met the minimum criteria for economic and financial standing and provided satisfactory responses in relation to the mandatory exclusion criteria. The Candidates responses (and any subsequent clarifications) relating to the sections of the PQQ dealing with relevant capability, qualities and resources were then evaluated, graded, scored and ranked in accordance with the published evaluation criteria. On the basis of the evaluation of the PQQ Submissions the Council selected three Bidders to be invited to participate in the dialogue. The Candidates were notified on 16 January 2012.

7.9.17 The prequalified Bidders were:

BBE Balfour Beatty, Bouygues Travaux Publics, Egis Projects consortium

comprising equity members Balfour Beatty plc, Bouygues Travaux Publics and Egis Projects

MER Merseylink consortium

comprising equity members Macquarie Capital Group Limited, Bilfinger Project Investments Europe Limited, Vialia Sociedad Gestora de Concesiones de Infraestructuras S.L. and FCC Construcción S.A.

MGL Mersey Gateway Link consortium

comprising equity members Hochtief PPP Solutions GmbH, Galliford Try (later replaced by BAM Nuttall – see below) and Iridium Concesiones de Infraestructuras S.A.

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7.9.18 Debriefing meetings were held with the unsuccessful Candidates on 29 February 2012. Candidates were provided with a hard-copy of “debrief statistics” for their submission. For each of the graded and scored questions in the PQQ, the statistics showed: the score achieved by the Candidate; and the highest and lowest scores achieved by any Candidate. The Candidates were given verbal advice as to the rationale for the grades they had been awarded.

7.9.19 Debriefing meetings were held with the successful Candidates on 1 March 2013; similar information to that described above was provided.

Subsequent changes to the prequalified consortia

7.9.20 Two of the prequalified Bidders subsequently, during the Dialogue Period, changed their membership. The MGL consortium replaced Galliford Try will BAM Nuttall and the MER consortium changed the membership of its construction joint venture; Bilfinger Berger was replaced with Samsung C&T Corporation and Kier Infrastructure joined the joint venture.

7.9.21 A change in Bidder make-up had the potential to invalidate the results of the selection made at prequalification stage, and thus the prequalified status of the Bidder, since that selection was based on evaluating the eligibility, experience, capabilities and resources of the consortia and their constituent members at that time. This was a particular issue on Mersey Gateway because we used the prequalification to down-select; using a scoring and ranking system, rather than a simple threshold standard. This resulted in a number of Candidates who demonstrated at least acceptable, and in some instances good to excellent, experience being excluded. It was, therefore, necessary to check that the two Bidders would have achieved a top three ranking in its new make-up rather than just checking they achieved some threshold level. Paragraphs 1.8 and 1.9 of the Important Notice in the Invitation to Participate in the Dialogue (ITPD) cover such a change in composition of a Bidder and allowed the Council: to request an update and resubmission of the Prequalification Submission, to re-assess the prequalified status of the Bidder, and to (if necessary) withdraw prequalified status "if the Council believes that the Bidder no longer has the required economic and financial standing and/or technical or professional ability, or if the Bidder becomes otherwise ineligible pursuant to Regulation 23".

7.9.22 Pursuant to the above, the Bidders updated their Prequalification Submission materials and resubmitted to the Council for evaluation and these were evaluated against the criteria stated in the Prequalification Document to determine whether a change in the grades which were previously awarded was required. The evaluation was carried out by team members who were involved in the original evaluation. A number of requests for clarification were issued and responses received.

7.9.23 In each instance, the Bidder's prequalified status was confirmed.

Dialogue stage

7.9.24 The Council issued the Invitation to Participate in Dialogue (ITPD) documents on 16 March 2012.

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7.9.25 The Council's approach to the competitive dialogue, as described by the ITPD, applied best practice.¹³ Key features of the Council's approach included:

- Targeted dialogue
The Council adopted a targeted dialogue and identified in the ITPD Document: the subjects that the Council wished to include in the Dialogue (the 'selected subjects'); and the subjects that were not to be included in Dialogue ('excluded subjects'). Targeted dialogue is widely recommended as best practice.
- Timetable
A full dialogue timetable was published at the outset. This comprised a meetings schedule and a schedule of supporting dialogue period submissions. An agenda was published for each meeting. A submission specification was published for each submission. The overall timetable was designed to be challenging but realistic and to set out a logical journey ('route map') to submission of Draft Final Tenders ('detailed solutions') which would be at a level of development that would allow the Council to consider its ability to close dialogue. This approach led to only needing a short period from Draft Final Tender to close of dialogue, focussed on particular issues, and allowed the dialogue to be closed on schedule. Any matters remaining were able to be considered as matters of clarification, specification, or fine-tuning. The work put into developing the timetable helped ensure the procurement met the programme; avoiding dialogue-drift maintained Bidder confidence in the process.
- Submissions
The Council was disciplined in its approach to requiring dialogue period submissions.

Bidder submissions were required to enable the Council to evaluate and give feedback on each Bidder's developing proposals and to give both parties confidence that the proposals were moving towards acceptable solutions for the Council. There was also a requirement for staged formal technical submissions to satisfy the Council's role as Highways Authority. Some Bidder Submissions were required to facilitate discussions at the dialogue meetings.

The submissions were designed to be evolutions of items that would ultimately be needed at Final Tenders and be items needed for the evaluation and award decision and/or binding into the Agreement.

The Council's submission requirements reflected the Council's view of what was required during the course of dialogue, at Draft Final Tender and at Final Tender to allow the Council to run an effective dialogue, evaluate Bidder proposals and select the most economically advantageous tender.

- Effective communication
The Council recognised that good quality communication is an

¹³ Including HMT Review of Competitive Dialogue 2010.

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important element of the procurement process. Effective communication is about ensuring that Bidders understand the process at each stage, what is required of them and what will be done by the Council in evaluation. Effective communication was acknowledged as having the potential to influence bidder behaviour and help ensure that the bids would address all of the Council's requirements and prove to be economically advantageous.

- **Organisational arrangements**
The Core Dialogue Team was divided along technical and commercial lines. The Project Director was involved in both teams, though the Commercial Director took the lead in the commercial stream. The members of the core team were selected for their Bidder-facing credibility and their authority and together represented the breadth of the technical and commercial matters. They had previously influenced the development of the scheme and the approach to the Council's requirements. They were nominated as 'Principals' for their particular topic areas. They were supported by a wider team in considering the detail of bidder proposals. The Principals had final sign-off of any written responses relating to their topic area. The Principals were subsequently responsible, in respect of their topic areas, for determining the Council's ability to close dialogue and in the evaluation of final tenders.

The organisational arrangements contributed to the successful running of the dialogue period.

- **Efficient procurement processes**
The Council developed processes to efficiently manage and administer the dialogue period. These covered dialogue circulars, queries and responses, and submission handling. The Council used eProcurement tools and systems to increase efficiency and reduce costs.

Approach to planning in the dialogue process

- 7.9.26 The Council developed an approach to dealing with planning which was designed to deliver on the primary procurement objective: to procure the construction of the infrastructure at best value. The approach was to provide a procurement framework within which Bidders could use their skills and expertise to gain competitive advantage and ensure opportunities to offer better value were not denied. To do this required planning to be integrated into the procurement so that Bidder proposals, and any changes from the consented schemes, could be considered in a managed procedure during the dialogue and tender stages; the procedure was required to give a high degree of confidence as to the deliverability (in the planning context) of the Bidder proposals.
- 7.9.27 The Council's approach delivered significant savings in the price of the infrastructure as compared to the Council's cost estimate.
- 7.9.28 Firstly, as noted in paragraph 1.6.4, pre-procurement the Council submitted supplementary planning applications to the local planning authority which were designed to improve the value-for-money of the Project. The planning applications covered various confirmed changes to the originally consented scheme and the

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associated cost savings were taken account of in the OBC. But more importantly, as regards delivering further savings in the procurement competition, the applications covered: removal of the requirement to provide a future light rail transit route across the new bridge; and relaxation in the level of detail shown for the structures, including the main bridge, to provide greater flexibility and opportunity for alternatives to be proposed. These changes allowed the Bidders much greater scope to optimise their designs particularly with regard to buildability and method; such optimisation is a critical success factor in getting best value from design and build procurement.

7.9.29 In developing the approach to the procurement stage, the following considerations were key:

- a core requirement of the Agreement would be that the Project Company complies with and discharges the Planning Conditions;¹⁴
- the timely discharge of the Conditions would be critical to ensuring that the procurement and construction phases of the Project are completed within programme;
- Bidders would be concerned as to the risk of being delayed by the Planning Authority's planning approval process;
- the Project Company would need to raise a significant amount of third party finance; financiers would likely refuse to allow the Project to reach financial close if there is a material level of uncertainty over planning remaining; and
- risk/uncertainty would be priced and it was to the Council's benefit to get the Bidders comfortable with the planning process in the procurement and post-contract award phases.

7.9.30 For the dialogue stage a 'Planning Strategy' was published. It defined the principles of the planning process to be followed during the different stages of procurement to clarify the planning process for Bidders, the Local Planning Authority (LPA) and the Council. The Planning Strategy was agreed with the LPA but did not fetter its discretion. The strategy aimed to: mitigate planning risk to acceptable levels within the statutory planning framework and the constraints of the procurement process; and set out the anticipated interaction between the Bidders, the LPA and the Council during the procurement process.

7.9.31 While the supplementary planning applications were designed to improve value for money and to allow greater flexibility and opportunity for Bidders to propose alternatives to the approved designs it was recognised that there may be opportunities for further flexibility which could require additional planning applications and the Planning Strategy was developed to allow Bidders to consider such opportunities and to discuss them with the Project Team during the Dialogue Period.

7.9.32 The Planning Strategy defined four levels of proposals that could be considered during the procurement process. A Level 1 proposal would be entirely compliant with the existing consents (as they stood at the beginning of the dialogue) and

¹⁴ Other than those discharged in advance by the Council (eg ecology surveys)

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would only require the discharge of planning conditions. A Level 2 proposal would involve changes to the design that are assessed as being acceptable under the 2010 permissions and/or the 2011 Further Planning Applications. It might also include alternative construction methods that were not environmentally worse than those previously assessed. These proposals would require the discharge of planning conditions plus submissions (for example further assessments or justifications of the proposed changes) to deal with the changes. A Level 3 proposal would require additional planning applications as well as the discharge of planning conditions. A Level 3 proposal would involve material changes in planning terms. It might also include very different construction methods from those previously assessed requiring further environmental assessment. In the case of different construction methods, it would need to be determined whether or not this required an additional planning application or could be dealt with through planning condition discharge submissions (in which case those aspects would constitute a Level 2 proposal). Level 4 would be a design not compliant with the Orders and substantially different from the 2010 permissions and/or the 2011 Further Planning Applications; proposals not complying with the Orders ('Level 4') would not be acceptable and therefore any Level 4 proposals would be rejected.

- 7.9.33 The 2011 Further Planning Applications were supported by a Design and Access Statement ('DAS'). The DAS defined the design principles and requirements for design quality in relation to design functionality, impact and build quality of the Project for procurement purposes and also provided information to the LPA to assist them in administering planning permissions granted pursuant to the 2011 Further Planning Applications and in discharging planning conditions attached to those permissions. Achievement of design quality is important to the Council as the promoter of the Project. The DAS was important to the Council applying best practice guidance on achieving design excellence: it signaled the importance of design as a threshold project selection criterion from the outset of the selection process; it provided a clear project design brief that addressed the client's aspirations and the project's physical and social context.
- 7.9.34 The LPA supported the Project Team in planning matters throughout the procurement stages of the Project and provided a Planning Liaison Officer (PLO). The PLO reviewed and provided comment on planning related submissions as set out in the Planning Strategy and assisted the Council in evaluating the planning risk and deliverability of Bidders' proposals.
- 7.9.35 Planning condition discharge submissions or planning applications were not to be made until appointment of the Preferred Bidder, but the processes during the dialogue were intended to ensure, as far as possible, that there would be minimal risk of those submissions or applications being rejected. To inform this process, Bidders were required to submit the following documents during the dialogue period: proposals for discharge of planning conditions report; outline construction methods report; proposals for discharge of third party commitments; environmental assessments ('NEWT' - Not Environmentally Worse Than); and proposals for planning submissions associated with Level 3 proposals (if required).
- 7.9.36 In the Preferred Bidder stage the Preferred Bidder is responsible for obtaining any necessary planning consents prior to entering into the Project Agreement. The

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Preferred Bidder considered the impact of obtaining such consents on the pre-commencement programme (the period from appointment of Preferred Bidder to financial close). The Preferred Bidder deals directly with the LPA and makes submissions accordingly. The Preferred Bidder's design development activities are regulated by the Design Development Agreement which was entered into at the time of confirming its appointment as Preferred Bidder. Planning activities under the DDA include making planning submissions and making planning condition discharge submissions. If acceptable to the LPA, discharge submissions will be bound into the Agreement as Approved Discharge Submissions.

- 7.9.37 In addition the prospective Project Company's proposals for the Bridgewater Junction required a new planning application. This was submitted on 27 August 2013 following a public consultation in July 2013. The planning application is scheduled to be granted in advance of financial close.
- 7.9.38 Post contract award, discharge of (remaining) planning conditions will be dealt with in accordance with the procedure defined by the Project Agreement. It is generally expected that these will be the reserved matters which the conditions recognise as dependent on detail design development.

Draft Final Tender

- 7.9.39 The Bidders submitted their Draft Final Tenders on 16 November 2012 towards the end of the competitive dialogue stage of the procurement process.
- 7.9.40 The Draft Final Tenders were required to be a complete presentation of all of the technical and commercial aspects of its proposals, including:
- technical proposals covering the main crossing and the approach highways and structures addressing design, construction, environmental, safety, and planning matters;
 - technical proposals covering asset management for the contract term;
 - technical proposals covering the operational service (including winter service) on the highway for the contract term;
 - proposals for the toll collection service including a detailed Draft Revenue Collection Business Plan, covering the shorter contract term of seven years;
 - Project Agreement Mark-Up and Commentary;
 - DMPA Mark-Up and Commentary;
 - Draft PA-DMPA Interface;
 - Draft Sub-contract Heads of Terms;
 - Draft Insurance Plan; and
 - Draft Financing Plan.
- 7.9.41 The submission of Draft Final Tenders was required in order to: allow the Council to evaluate the state of development of each Bidder's proposals as of the end of the initial dialogue period; and identify the issues that required further discussion with each Bidder in order to allow the Council to work towards close of dialogue, identifying "one or more solutions capable of meeting its needs" which would, in

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turn, allow the Council to close dialogue and call for the submission of Final Tenders.

7.9.42 Close of dialogue was identified as a significant project milestone; the Public Contracts Regulations place particular obligations on the Council. The Council needed to be satisfied that it had sufficiently dialogued solutions with Bidders, pre and post-Draft Final Tender, and that there were no material issues outstanding since: (a) the Council should not close dialogue until it has identified "one or more solutions capable of meeting its needs"; and (b) following the submission of Final Tenders, the Council is constrained and is only entitled to "clarify, specify or fine tune a tender", and only where such clarification, specification, fine-tuning or additional information does not involve changes to the basis basic features of the tender or the call for Final Tender when those variations are likely to distort competition or have a discriminatory effect.

7.9.43 The evaluation of Draft Final Tenders was designed to play the key role in this process: by recording Bidder compliance and non-compliance, by identifying matters and issues that require further dialogue, and in ensuring that all material issues would be resolved in advance of close of dialogue and call for Final Tenders.

7.9.44 The Council's approach was as follows. The Council evaluated each bid and presented each Bidder with a list of "Issues to be addressed in the Bidder's action plan" ("Issues"). The "Issues" covered matters of compliance, feedback on the scored parts of the bid (including issues requiring further development), and the risk adjustment. The Bidders then developed their "Action plan for further development of the proposals" ("Action Plan") to address the "Issues". The Action Plans formed the basis of the work during Further Dialogue. The Council then provided each Bidder with an equal opportunity to discuss and develop its proposals, in the timeframe allowed including at 'Further Dialogue Meetings', to allow the Council to identify "one or more solutions capable of meeting its needs", to close dialogue and call for Final Tender.

Further dialogue

7.9.45 Further Dialogue Meetings took place between 15 January to 14 February 2013. The Bidders made various submissions to support the dialogue and the discussions around the "Issues" which had been identified by the Council.

Decision to close dialogue

7.9.46 In February 2013, the Council took stock of the position with each Bidder and assessed whether it was able to close the dialogue and issue the Call for Final Tender. The "Close of Dialogue and Funding Approval Update Report - February 2013" is included in Appendix 7-A-2. The report was prepared:

- To support the decision by Officer Project Board to close the Competitive Dialogue and to support the Chief Executive in exercising his authority to Close Dialogue as agreed by the Mersey Gateway Executive Board (members), which together would allow the project team to proceed to call for Final Tender; and
- To confirm to DfT that the Project remained in material compliance with the Conditional Approval dated 19 October 2011 and to highlight any changes required to the Funding Approval as a result

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of changes to the Project since the Outline Business Case (OBC) submission.

Review of the approach to commercial and procurement strategy

7.9.47 Among other things, the close of dialogue report considered the success of the procurement process as regards the commercial and procurement strategies as evidenced in the conduct of the dialogue meetings and the Bidders' Draft Final Tenders.

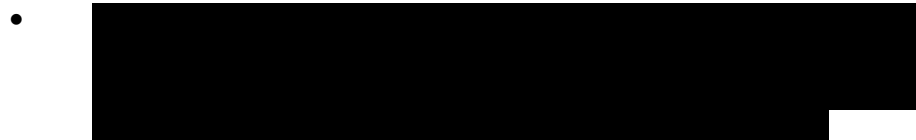
7.9.48 It was concluded that the Council's strategy of procuring a 'standard' (or 'conventional') DBFO contract (the Project Agreement) with the private sector for the provision of the Mersey Gateway infrastructure and a separate Agreement for toll operator services (the DMP Agreement) had been accepted and welcomed by the Bidders.

7.9.49 It was concluded that the approach to the DMPA had been beneficial on the basis that:

- analysis of the Bidders' financing terms indicated that the Project Company's funders regard the DBFO Contract as being an availability-based payment PPP that will be insulated from the risks associated with demand and toll collection in an Open Road Tolling system, including the risk of enforcement and violation;



- procuring the DBFO Agreement and DMPA as part of the same procurement had ensured that the Council would procure an end-to-end revenue collection system from the same consortium. The interface risk between the Project Agreement and the DMPA would be managed through interface arrangements between the Project Company and DMPA Company.



7.9.50 While the DMPA Company would not be required to bid an investment sum as was contemplated in the OBC, it will, however, be required as a condition of service commencement to provide a parent company guarantee or performance bond in the

amount of [REDACTED]
[REDACTED] The parent company guarantee or performance bond would be available to meet any termination damages due to the Board on termination of the DMPA for DMPA Company default and was therefore sized based on a reasonable pre-estimate of the Board's losses on such a termination.

- 7.9.51 Sanef SA has agreed to meet this requirement by providing a contractual undertaking for damages of up to [REDACTED] in support of DMPA Co. Although the Council would not be able to draw on this support in the event of Sanef SA's insolvency, the likelihood of Sanef SA becoming insolvent is considered very remote and therefore this risk is considered acceptable.

Close of Dialogue and Call for Final Tender

- 7.9.52 The Council formally closed the dialogue and issued the Call for Final Tender on 22 February 2013.
- 7.9.53 The Call for Final Tender documentation included the Commercial Instructions for Final Tender. This document consolidated the commercial positions reached across a range of issues in the course of conducting the Dialogue and provided finer detail on the required application of these positions in the Final Tender process. Administrative Instructions of Final Tender were also issued (in particular covering the submission requirements). The Bidders were also provided with draft copies of the Provisional Preferred Bidder and Preferred Bidder Appointment Letters.

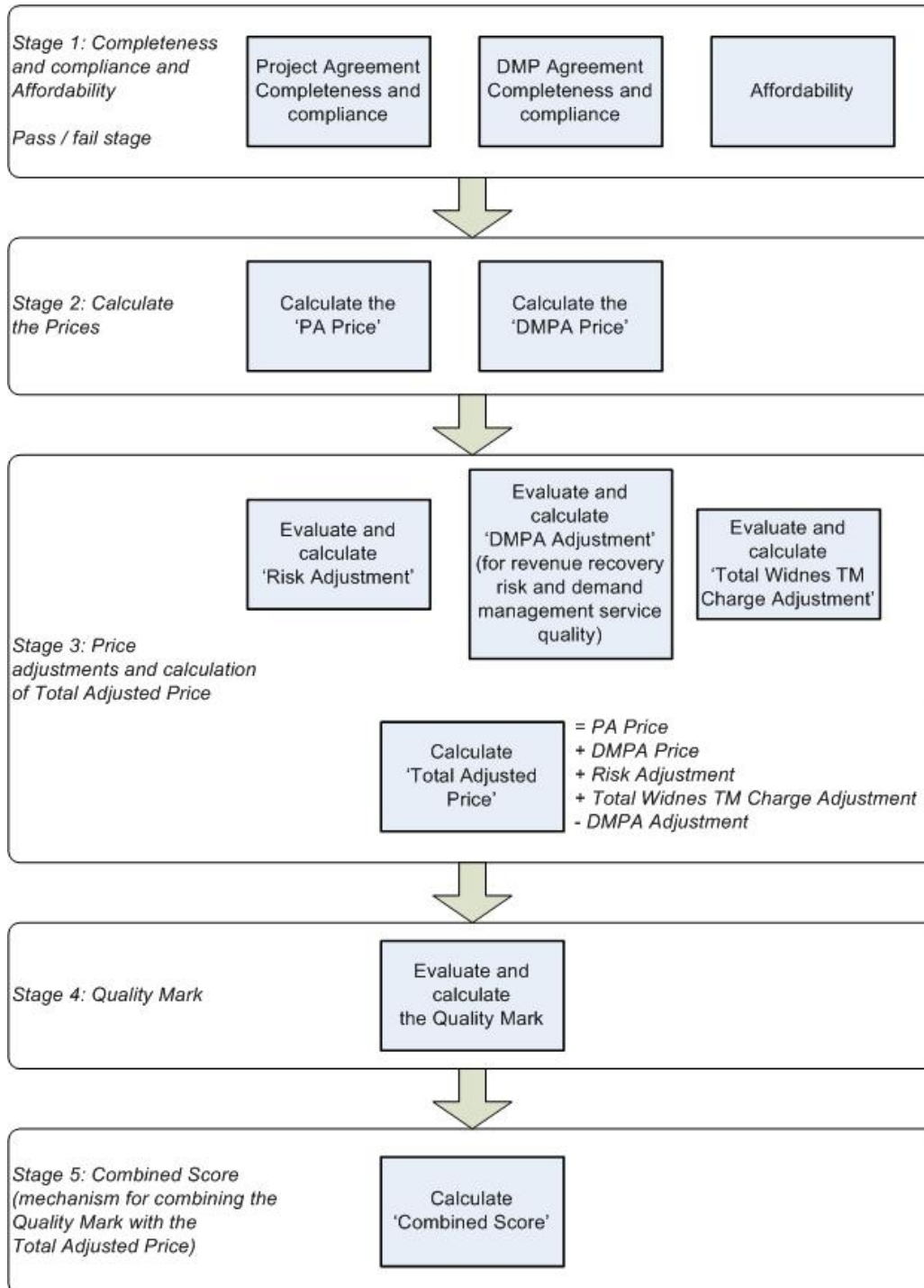
Final Tenders

- 7.9.54 The deadline for submitting Final Tenders was 12.00 hours on 10 April 2013. Final Tenders were received from all three Bidders.

Evaluation of Final Tenders

- 7.9.55 The evaluation criteria were stated in the Invitation to Participate in Dialogue (ITPD) Part 5 (Evaluation).
- 7.9.56 These criteria were designed to deliver the Council's procurement objectives (see section 7.8).
- 7.9.57 These evaluation criteria, and the stages in the application of those criteria and the calculation of the Combined Score, are illustrated in the extract from ITPD Part 5 below; further information on these stages in the evaluation process is then given.

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ITPD Part 5	Notes
Stage 1: Completeness and compliance and affordability	
Completeness	<p>This is an administrative check on the Final Tender submissions.</p> <p>On receipt, the Process Team carried out checks on the hard copy and electronic copy to ensure that all item codes had been received, that the required formats had been received, that if a submission is broken into a number of files, all parts had been received etc.</p>
Compliance	<p>Compliance is the principal consideration in evaluating the Final Tenders.</p> <p>The risk of non-compliance was substantially mitigated by the evaluation of the Draft Final Tenders and the corresponding feedback given to Bidders, and by discussion at Further Dialogue Meetings. Matters of compliance were the principal consideration at Draft Final Tender. The Council evaluated each Draft Final Tender and presented each Bidder with a list of "Issues to be addressed in the Bidder's action plan" ("Issues") The "Issues" covered matters of compliance, and also feedback on the scored parts of the bid (including issues requiring further development). The Bidders then developed their "Action plan for further development of the proposals" ("Action Plan") to address the "Issues". The Council provided each Bidder with an equal opportunity to discuss and develop its proposals, including at 'Further Dialogue Meetings'. During Further Dialogue a series of responses were received on the Issues (new submissions, clarifications etc).</p> <p>In carrying out the Final Tender evaluation, the Evaluation Team was focussed on:</p> <ul style="list-style-type: none"> • providing sufficient evidence of compliance to document the acceptability of the proposals • identifying any non-compliance and recording rationale which is sufficient to document the non-compliance for consideration by the Principal • recording any matters for fine-tuning • record any aspects of the proposals which should be carried forward to the Risk Adjustment process
	<p><i>Financial robustness</i></p> <p>The compliance stage includes a consideration of each Bidder's financing solution to determine whether it is robust and deliverable in accordance with paras 2.3.3 to 2.3.5 of ITPD Part 5. This is a threshold test.</p>

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ITPD Part 5	Notes
Affordability	Affordability was evaluated in accordance with part 2 section 1 of the Commercial Instructions for Final Tender
Stage 2: Calculate the Prices	
Calculate the PA Price	The Financial Adviser calculated the PA Price in accordance with the methodology defined in the ITPD.
Calculate the DMPA Price	The Financial Adviser calculated the DMPA Price in accordance with the methodology defined in the ITPD.
Stage 3: Price Adjustments and Total Adjusted Price	<p>Price adjustments are applied in Stage 3. The Price Adjustments reflect:</p> <ul style="list-style-type: none"> • the Council's assessment of the potential cost to the Council of any proposed risk transfer which affects the Council's Base Risk Profile (the Risk Adjustment); • the value placed by the Council on the Bidder's proposals for managing revenue recovery risk and the quality of the Bidder's proposals performing the Demand Management Service; and • the economic cost of disruption to road users in Widnes resulting from the Bidder's proposed traffic management during the Works. <p>The Financial Adviser was responsible for calculating the Total Adjusted Price (i.e. by applying the three separate Price Adjustments to the sum of the PA and DMPA Prices). The Price Adjustments themselves were calculated by the relevant Evaluators and Principals (i.e. by separate teams). The Principal/Moderator was required to confirm the Adjustment that should be applied to each bid. This was recorded in Award. These were extracted and securely communicated to the Financial Adviser only (via BC) for calculating the Total Adjusted Price.</p>
Risk Adjustment	<p>Evaluators identified potential items for the Risk Adjustment in accordance with ITPD Part 5. Note that the Bidders were previously advised of the Risk Adjustment that will be applied to their bids on the basis of their Draft Final Tender.</p> <p>Evaluators were only required to identify matters which were the result of any changes between Draft Final Tender and Final Tender which: increase a risk already identified; or present a new risk.</p>

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ITPD Part 5	Notes
<p>Total Widnes TM Charge Adjustment</p>	<p>The Works entail major reconstruction and reconfiguration of Halton’s highway networks in Runcorn and Widnes. Whilst the Council recognises that it is inevitable that disruption to traffic will occur during the construction phase, it is seeking to minimise disruption, balancing the cost to the economy of Halton of traffic disruption with the cost of mitigating disruption. The Widnes TM Charge Adjustment is designed to incentivise proposals which minimise disruption. The Bidders calculated a Total Widnes TM Charge Adjustment based on the charge rates provided by the Council for particular Traffic Management arrangements and/or as stated in the ITPD. Evaluators checked each Bidder’s calculation.</p> <p>This information is in submission SN Widnes Diversion Charging Schedule (submitted in Package C)</p> <p>The Principal confirmed the Adjustment that should be applied to each bid. This was securely communicated to KPMG only (via BC) for calculating the Total Adjusted Price.</p>
<p>DMPA Adjustment comprising</p> <p>(i) the Revenue Recovery Adjustment (RRA) and</p> <p>(ii) the Demand Management Service Quality Adjustment (DMSQA))</p>	<p>There are two components to the DMPA Adjustment:</p> <p>(i) RRA – calculated by the Financial Adviser in accordance with ITPD Part 5 para 4.5 as amended by part 3 section 6 of the Commercial Instructions for Final Tender</p> <p>(ii) DMSQA –evaluated in accordance with ITPD Part 5 para 4.6 to determine a ‘quality grade’ in accordance with the published matrix. After the moderation meeting, the Moderator was required to confirm the DMQSA Grade that should be applied to each bid. This was securely communicated to the Financial Adviser only (via BC)</p> <p>This evaluation is based on an assessment of submission CE Revenue Collection Business Plan (submitted in Package D)</p>
<p>Total Adjusted Price</p>	<p>This stage comprises summing the PA Price, DMPA Price and each of the Adjustments in accordance with the calculation at ITPD Part 5 para 4.1.2. The Financial Adviser did this.</p>
<p>Stage 4: Quality Mark</p>	<p>For each of the components of the Quality Mark, after the moderation meetings the Moderator recorded the grade which had been awarded to each Bidder in AWARD. These were extracted and securely communicated to the Financial Adviser only (via BC). The Financial Adviser calculated the total Quality Mark in accordance with the formula in the ITPD (applying the published weightings).</p>

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ITPD Part 5	Notes
Community engagement and social responsibility	<p>The Council evaluated each Bidder's proposals in respect of: (i) the level of employment and training opportunities committed to in its Employment and Skills Commitment Register (ECSR); and (ii) the quality of the Bidder's Employment and Skills Delivery (ESD) Plan. The evaluation criteria is described in ITPD Part 5 Appendix 5D.</p> <p>This information is in submission CQ Employment and Skills Delivery Plan (submitted in Package D)</p>
Environment and sustainability	<p>The Council evaluated each Bidder's proposals in respect of its approach to (i) waste management; and (ii) embodied carbon. The evaluation criteria is described in ITPD Part 5 Appendix 5D</p> <p>This information is in submission CQB Approach to Environment and Sustainability (submitted in Package D)</p>
Regeneration	<p>The Council evaluated each Bidder's proposals in respect of being supportive of the Regeneration Strategy. The evaluation criteria is described in ITPD Part 5 Appendix 5D</p> <p>This information is in submission CQA Approach to regeneration (submitted in Package D)</p>
Stage 5: Combined Score	
Calculate the Combined Score	<p>The Combined Score was calculated by the Financial Adviser in accordance with the formula in the ITPD Part 5 which defines the methodology for combining the Price Score and the Quality Score.</p> <p>The Bidder with the highest Combined Score will be selected as (Provisional) Preferred Bidder provided that they have also passed the compliance stages of the evaluation.</p>

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- 7.9.58 On the basis of applying the published evaluation criteria Merseylink was identified as the Provisional Preferred Bidder. Any remaining issues with this bid were considered to be able to be resolved as matters of clarification and fine-tuning either; as one of the matters which was to be included in the Provisional Preferred Bidder Appointment Letter, the resolution of which would be 'conditions-precedent' to proceeding to appointment as Preferred Bidder; or as one of the fine-tuning matters to be listed in the Preferred Bidder Appointment Letter, the resolution of which would be 'conditions-precedent' to Financial Close.

Appointment of Provisional Preferred Bidder and Preferred Bidder

- 7.9.59 The Provisional Preferred Bidder was notified on 22 May 2013 of its appointment; The other Bidders were notified that they had not been successful and that one of the other Bidders had been appointed.
- 7.9.60 Merseylink were formally appointed as Preferred Bidder on 20 June 2013. The other Bidders were notified of Merseylink's appointment on the same date. The BBE consortium was appointed Reserve Preferred Bidder.

- 7.9.61 Copies of the Provisional Preferred Bidder Appointment Letter and the Preferred Bidder Appointment Letter are included in Appendices 7-C and 7-D.

Notifying the unsuccessful Bidders and debriefings

- 7.9.62 A note explaining the Council's approach to complying with the contract award procedures of the Public Contracts Regulations and debriefing the Bidders is included in Appendix 7-B (the note was updated in November 2013 and describes in detail the debriefing carried out in July 2013). In addition to being required to comply with the Regulations, debriefing is considered to be an integral part of good procurement practice; effective briefing should always reduce the likelihood of legal challenge because it will prove to suppliers that the process has been carried out correctly and according to the rules of procurement and propriety.
- 7.9.63 The unsuccessful Bidders were provided with a written "Debriefing Report" and invited to a debriefing meeting. The Debriefing Reports provided: the name of the Preferred Bidder; the criteria for the award of the contract; the outcome of the evaluation of their proposals against the published evaluation criteria.
- 7.9.64 Note that at this time we were not providing the full information to meet the requirements for 'award decision notices' under Section 32(2) of the Regulations. The nature of our evaluation criteria is that scoring information will tend to reveal the (approximate) 'winning price' and/or the order of magnitude of the difference between the Bidders. Council considered that this should not be revealed at this time. The Bidders were advised that: "In accordance with the permitted exemptions in the Procurement Regulations, the Council has not set out all the reasons for its decision, certain characteristics and/or relative advantages of the Preferred Bidder's bid as the Council has determined that to disclose such reasons, underlying characteristics and/or relative advantages of the Preferred Bidder's bid would prejudice the legitimate commercial interests of the Preferred Bidder and/or might prejudice fair competition between economic operators. This would particularly be the case if, prior to contract close, any changes in circumstances occurred which required the Council to revisit the procurement process, as where commercially sensitive information relating to the Preferred Bidder's proposals had been provided

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to the Bidder in feedback, this may make it more difficult to continue the procurement on a fair, equal and transparent basis with all Bidders.”

- 7.9.65 Therefore, to discharge in full the obligations of the Regulations, an updated version of the Debriefing Report will be provided when the formal award decision notice is issued and will include: the scores obtained by the Bidder; the scores obtained by the Preferred Bidder; the reasons for the decision,¹⁵ including the characteristics and relative advantages of the Preferred Bidder’s bid.
- 7.9.66 Debriefing meetings were held on 16 Jul 2013. While debriefing meetings are not required by the Regulations, Bidders had invested considerable funds and time into their bids, and a face to face meeting was considered to be an effective way to debrief a disappointed Bidder. Effective face-to-face debriefing was considered to further demonstrate to the Bidders that the decision has been arrived at fairly and transparently.
- 7.9.67 Formal award decision notices will be sent to the two unsuccessful Bidders and will include information consistent with the requirements for ‘award decision notices’ under Section 32(2) of the Regulations (i.e. as listed above). In addition, standstill information under Section 32(2)(d) will be included.

Preferred Bidder Period

- 7.9.68 The Preferred Bidder Period commenced on 20 June 2013. In this period the Preferred Bidder carried out the following key activities:
- Finalisation of the financing plan including working with the HMT UK Guarantees team
 - Fine-tuning activities (identified in Appendix 1 of the Preferred Bidder Appointment Letter);
 - Planning activities (including Planning submissions, Planning Condition Discharge submissions, and involvement with Regulators and Third Parties);
 - Design Development Works (identified in Appendix 3 of the Preferred Bidder Appointment Letter);
 - Non-Design Development Item activities, including developing quality assurance and liaison procedures (identified in Schedule 2 Part 2 of the Design Development Agreement included in Appendix 4 of the Preferred Bidder Appointment Letter);
 - Assumed responsibility as client under the Construction (Design and Management) Regulations 2007;
 - Worked with the Council in commencing the procurement of the Independent Certifier;

¹⁵ The Bidder is in practice receiving ‘one-half of’ the reasons for the decision by virtue of being given the outcome of the evaluation of the Bidder’s proposals against the published evaluation criteria; the ‘other half’ is details of the characteristics and relative advantages of the Preferred Bidder’s bid.

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- Activities pursuant to the employment and skills objectives including establishing the Employment and Skills Governance Board and carrying out the initial stages of the various employment and skills initiatives.

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7.9.69 The Council, DfT and the Preferred Bidder agreed the terms of the DfT counterparty support in this period.

Financial Close

7.9.70 Financial Close is scheduled to be on 26th February 2014..

7.10 Contracts Strategy

7.10.1 The integrated contracts strategy is defined by the Commercial Strategy and involves the Council procuring two agreements, the Project Agreement and the DMP Agreement. The approach to the Project Agreement and the DMPA is described below.

7.11 Project Agreement

7.11.1 The Project Agreement is a design, build, finance, operate and maintain agreement using a typical project finance structure, where a special purpose vehicle is the single point of accountability in respect of the design, build, finance, operation and maintenance of the Project facilities and secures finance by way of limited recourse debt.

7.11.2 The Project Company is responsible for the design, procurement and installation of the toll collection system and for satisfying the live testing tests. This includes not only the tolling infrastructure, equipment and systems on the Mersey Gateway and Silver Jubilee Bridges, but also all off-site systems, equipment and personnel required to satisfy the live testing regime. The Project Company will sub-contract this responsibility to the CJV under the D&C Contract and the obligations in that agreement will be supported by the CJV's security package.

7.11.3 The Contract Period will expire 26½ years after the date of the original Target Permit to Use Date and is expected to be 30 years overall since construction is expected to take 3½ years.

7.11.4 The Project Company will be paid on an 'availability basis'¹⁶ through a payment mechanism that: incentivises it to maximise the quality of the 'crossing experience' and availability of the asset; and links payment to performance.

7.11.5 The Project Agreement follows SoPC4 guidance and other precedents in the UK roads sector. During Dialogue, Bidders did not seek to make material changes to the SoPC4 risk allocation.

7.11.6 HM Treasury issued its "Standardisation of PF2 Contracts" guidance in December 2012 (i.e. during the dialogue period). Elements of the guidance or its required drafting were incorporated into the revised draft Project Agreement issued prior to Final Tender. A number of the PF2 updates, however, were not incorporated,

¹⁶ Where 'availability' is used generically and as opposed to a 'usage basis'. As noted in section 7.14 (on Payment Mechanism), journey time will be used as the 'availability proxy'.

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primarily because either: the PF2 areas are not applicable to Mersey Gateway; or the PF2 position was too much of a departure from the position that had been advanced during dialogue, causing concern of delay if it were incorporated at that stage in the procurement. These are summarised in the close of dialogue report in Appendix 7-B.

- 7.11.7 The draft Project Agreement issued at Call for Final Tender formed the basis of the prospective Project Company's Final Tender.

Contaminated land

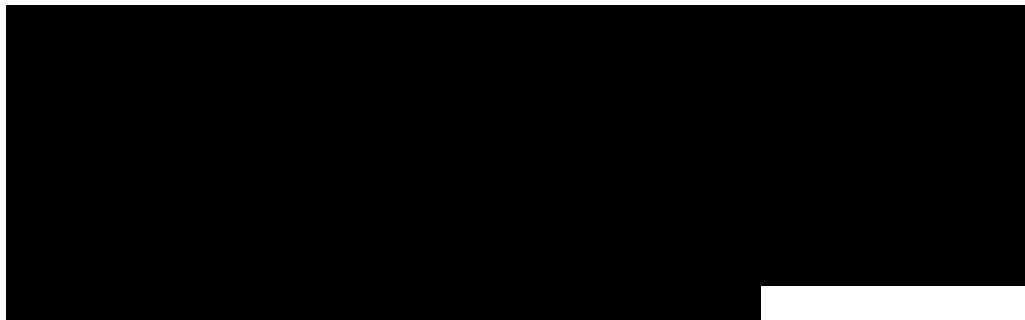
- 7.11.8 As set out in the OBC, in order to improve value for money the Project Agreement contains a risk sharing mechanism between the Board and the Project Company with respect to contamination in certain parts of the site that were known to be heavily contaminated. The risk sharing will only be triggered on the occurrence of defined 'Exceptional Events'. The maximum cumulative liability of the Board and the Project Company in relation to Exceptional Events is [REDACTED]. If this maximum amount is reached, the Board can decide whether to meet the additional costs incurred in relation to Exceptional Events or terminate the Project Agreement on a Force Majeure basis.

7.12 DMP Agreement

- 7.12.1 The DMP Agreement relates to the delivery of open road tolling revenue collection services and demand management services to the Council and the Crossings Board.
- 7.12.2 Under the DMP Agreement, the DMPA Co will be responsible for operating a comprehensive end-to-end revenue collection service in respect of both the Mersey Gateway Bridge and the SJB on behalf of the Council.
- 7.12.3 The Agreement requires the DMPA Company to pay to the Council 100% of the theoretical revenue generated from vehicles using the crossings. The DMPA Co will therefore be responsible for recovering tolls and allowable charges from violators and managing the risk of uncollected tolls. In the OBC, it was assumed that this violation and enforcement risk was retained by the Board.
- 7.12.4 The DMPA Co will provide tolling strategic services to the Board; these services include:
- pre-opening day activities (marketing, promotion etc);
 - pricing strategies designed to maximise revenue (within the constraints of the toll orders and the Council's overall Project objectives and specific tolling objectives);
 - pricing strategies designed to maximise account take-up and use of electronic (tag) payments;
 - service improvements;
 - discount schemes and discount tactics (including ramp-up tactics);
 - reviewing, reconciling and reporting on observed traffic flows and revising and fine tuning forward revenue forecasts;
 - operation phase marketing; and
 - traffic modelling and forecasts (including sensitivity testing).

- 7.12.5 The DMPA Company submitted a detailed Revenue Collection Business Plan as part of its Final Tender which sets out how it will provide these services. This plan sets out its proposals for the end-to-end revenue collection system it intends to implement on the Mersey Gateway Bridge and SJB, including the tolling technology to be used at the roadside and in users' cars and the back office technology and processes that will be used to process toll transactions and recover toll revenue. The Revenue Collection Business Plan also sets out the DMPA Co's proposals for encouraging users to register for accounts through discounts to optimise operational efficiencies and the DMPA Co's promotion and marketing strategies.
- 7.12.6 The DMPA Co's Revenue Collection Business Plan uses Radio Frequency Identification (RFID) "sticker" tags to reduce capital costs and lower postage and replacement costs. Consistent with the letter provided by the Department to Sanef on 20 November 2012, the revenue collection system installed on the Mersey Gateway Bridge and SJB will also be capable of processing transactions generated by users that have EETS on-board technology fitted. DMPA Co will remain responsible for complying with the Road Tolling (Interoperability of Electronic Road User Charging and Road Tolling Systems) Regulations 2007 and Directive 2004/52/EU.
- 7.12.7 The Revenue Collection Business Plan will be contractualised in the Agreement as it will form one of the schedules to the DMP Agreement.
- 7.12.8 The DMPA Company will be paid a Service Subsidy for providing the toll service. The DMP Agreement contains a KPI regime which can ultimately lead to termination of the DMPA Company for poor performance.

7.12.9



7.13 "Live Testing"

Introduction

- 7.13.1 Payments to the Project Company and the DMPA Company will not commence until the end-to-end revenue collection system has demonstrated a satisfactory level of performance under live traffic conditions, including the collection of a specified percentage of theoretical toll revenue.
- 7.13.2 The Project Company and DMPA Company will be required to work together to achieve a satisfactory level of performance under live testing conditions. Funders due diligence has been undertaken on the ability of the Project Company and DMPA Company to satisfy the live testing criteria which provides additional comfort to the Council that the Bidders' end-to-end revenue collection proposals are robust.

7.13.3 A proposal in relation to toll protestor action has been developed to address concerns of the CJV when delivering live toll testing. The scope of this relief is intended to be for extreme circumstances only and is only as wide as necessary to address the concerns of the CJV.

7.14 Project Agreement - Payment Mechanism

Introduction

7.14.1 The Project Agreement payment mechanism will put into financial effect the allocation of risk and responsibility between the Council and the Project Company. It will determine the payments which the Council makes to the Project Company and establishes the incentives for them to deliver the Service. It will match payments to the outcomes and outputs that the Council wishes to see delivered.

7.14.2 The objectives of the payment mechanism are to:

- establish a contractual relationship with the Project Company that delivers best value for money for the Council;
- incentivise the Project Company to deliver transport and environmental benefits, by maintaining free flow traffic conditions on the Mersey Gateway Bridge and Silver Jubilee Bridge (SJB) and delivering priority for public transport on the SJB; and
- provide an incentive to the Project Company to cooperate with the provider of toll collection and enforcement services under the DMP Agreement.

7.14.3 The Project Agreement payment mechanism is structured to provide availability (through a journey time mechanism) and performance based payments from the Council to the Project Company during the operational period. There will be no availability payments made during the construction period / prior to the satisfaction of the live testing regime. The Unitary Charge will be subject to deductions for poor performance. The deductions will be based upon journey time and service levels on the Mersey Gateway Bridge and the availability of the approach roads and slip roads, as well as other specified targets.

7.14.4 The payment mechanism comprises the following components:

- Unitary charge
- Journey time deductions
- performance adjustments
- limitations on deductions
- lane closure charges ;
- Widnes Diversion Charging

Journey time deductions

7.14.5 Journey time was selected as the principal measure of service to users. This output based (rather than input based) measure was chosen because of its alignment with the Council's objectives, its alignment with the Project's forecast benefits, its simplicity, and its introduction of a direct link between service provided to users and the payments to be made to the Project Company. This latter element was

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considered important given that users are being asked to pay. This approach was accepted by the Bidders during the procurement.

7.14.6 The payment mechanism provides relief from journey time deductions in event of defined Accepted Circumstances, such as closures on specified roads within the local road network that lead to a demonstrable increase in traffic across the Mersey Gateway Bridge, resulting in slower journey times.

7.14.7 The payment mechanism includes a mechanism which re-calibrates the level of journey time deductions if increases in demand result in lower journey times (i.e. congestion). The payment mechanism is not seeking to transfer demand and traffic risk.

Performance adjustments

7.14.8 Performance Adjustments are used as a first-tier remedy for certain Service Failures by the Project Company. The regime is designed to control: the delivery of both time and quality related aspects of the operation and maintenance services; the Project Company's asset management processes and the condition of the assets; and other selected aspects of the Project Company's performance. It is intended to be a semi-automatic system of monetary deductions that reflects the value of the lost service or failure. The regime captures other wider aspects of the Project Company's performance than the Journey Time Deduction

Lane Closure Charges

7.14.9 The payment mechanism also allows the Board to levy lane closure charges as a result of closures of one or more lanes on the sections of the Project Road that are not covered by the journey time deductions mechanism.

Limitations on deductions

7.14.10 As is customary, the Board may not, in respect of any payment period, make journey time deductions, service failure deductions and/or lane closure charges which (in aggregate) are greater than the monthly unitary charge. In addition, the Board may not, in respect of any payment period, make a performance adjustment which is greater than 30% of the monthly unitary charge for that Payment Period.

Widnes Diversion Charging

7.14.11 The Widnes Diversion Charging mechanism is designed to incentivise the Bidders and the eventual Project Company to minimise disruption to road users in carrying out the highway works in Widnes.

7.14.12 A system of charging for traffic diversions in Widnes will operate during the construction phase.

7.14.13 The Preferred Bidder submitted an 'Outline Traffic Management Plan' for the works with its final tender. The 'Total Widnes TM Charge' derived from that plan will be increased by 10% and this value will become the Project Company's 'Widnes Diversion Charging Credit'.¹⁷

¹⁷ Note that the evaluation criteria included a price adjustment, the Widnes TM Charge Adjustment. The Bidder's price was increased by the amount of the Adjustment in order that the Council's evaluation take account of the disruption caused to users by the Bidders' proposed designs and construction methods / sequence. The Adjustment was designed to incentivise the development of innovative solutions.

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- 7.14.14 During the Works, the Project Company will be required to report traffic management in Widnes weekly and to summarise and calculate the cost if the traffic management diversions and other measures actually implemented as part of its monthly design and construction report.
- 7.14.15 The Project Company will be entitled to deviate from the methods and programmes included in its 'Outline Traffic Management Plan' provided the Board and the Highway Authority's Traffic Manager do not object; however if the change impacts on diversions covered by the 'Widnes Diversion Charging Schedule' the cost of any changed method will be determined by reference to the Payment Mechanism.
- 7.14.16 If the total cost of the 'Widnes Diversion Charge' incurred during the Works is more than the Project Company's 'Widnes Diversion Charging Credit', then the Board will be entitled to deduct the excess, via the unitary charge, from payments that become due to the Project Company.

7.15 Insurance

Approach to securing best value

- 7.15.1 The Council explored the best value for money approach to insurance in the procurement process.
- 7.15.2 In the development period, the Council had reviewed the alternative approaches to the procurement of insurances for the Project, namely Owner-Controlled Insurance Programmes (OCIP) and Contractor-Controlled Insurance Programmes (CCIP). After considering the respective advantages and disadvantages of each approach, the Council decided that the main project insurances would be procured by the Council on an OCIP basis, whilst other classes of insurance dealing with risks more specific to the Project Company would be procured by the Project Company.
- 7.15.3 It was therefore the intention that an OCIP would be procured by the Council to cover the following classes of insurance during each phase as follows:
- Works Phase (Construction 'All Risks'; Delay in Start Up; Third Party Liability; and Contractors' Pollution Liability); and
 - Services Phase (Property Damage; Business Interruption; and Third Party Liability).
- 7.15.4 However, the Council recognised the value of including insurance as one of the matters to be dialogued and market tested. Insurance was discussed at dialogue meetings and was the subject of dialogue period Bidder submissions. The Bidders' Draft Final Tenders included an 'Insurance Plan' which covered taking an alternative CCIP approach to works phase insurance.
- 7.15.5 At close of dialogue, the Council was able to report that the exercise had demonstrated that the approach of market testing the OCIP and CCIP approaches had delivered:
- a significant reduction in the OCIP premiums (c£6m) compared to the original budget (£20m);
 - acceptance by the Bidders and their funders of the OCIP approach; responses from the Bidders on the CCIP premiums which show a keen commercial approach, comparable with the OCIP quotations;

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- the ability for the Council to demonstrate that it has thoroughly investigated the alternative insurance approaches for the Project, both in terms of cost and scope of coverage; and an insurance solution for the Project which will provide broad protection at a demonstratively competitive price.

Final approach

7.15.6 Following a review by the Council of the insurance plans (and premium estimates) submitted by the Bidders for a CCIP approach, it was decided that the insurances should be arranged on the following basis:

- Works Phase – insurances to be arranged on a CCIP basis;
- Services Phase – insurances to be arranged on an OCIP basis.

7.15.7 Contractors' Pollution Liability (required during construction) is to be procured on an OCIP basis in order that the advance works carried out by the Council can be insured.

7.16 Employment and Skills

Introduction

7.16.1 The dialogue documents advised Bidders that the Council has a strong commitment to the development of employment, training and educational opportunities within the local community and that under the Project Agreement and the DMP Agreement, the Project Company and the DMPA Co would be required to actively participate in the achievement of employment, training and educational objectives.

7.16.2 The Council's requirements for 'community engagement and social responsibility' were described by the ITPD. The Bidders were required to produce Employment and Skills Delivery Plans (ESD Plans) which describe how they would deliver a range of 'ESD Initiatives' under the Project Agreement and DMP Agreement:

ESD Initiative	Target Group
Employment Opportunities	<ul style="list-style-type: none">• Unemployed Adults• those not in employment, education or training ('NEETs')
New Apprenticeships	<ul style="list-style-type: none">• NEETs• 18-24s• Unemployed Adults• Care leavers
Workplace Training	<ul style="list-style-type: none">• NEETs• 18-24s• Adults on Employability Skills Training courses
Work Placements	<ul style="list-style-type: none">• School children including Career Academy learners• Vocational students• Adults in training
Learning & Careers	<ul style="list-style-type: none">• School children including Career Academy learners• Vocational students• Adults in training
SME Engagement	<ul style="list-style-type: none">• SMEs
Donated Hours	<ul style="list-style-type: none">• Community groups

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- 7.16.3 Bidders were allowed to engage with the Halton Employment Partnership (HEP) in developing their proposals during the Competitive Dialogue period on the basis that the HEP can provide support to the eventual Project Company and DMPA Co in meeting its ESD Plan objectives.
- 7.16.4 The HEP supports inward investors and local businesses with a 'complete employment offer'. The HEP brings together expertise from various employment, learning and skills development agencies working in Halton including Halton Borough Council (Development & Investment/Employment, Learning & Skills/14-19), Job Centre Plus, Riverside College, the Chamber of Commerce, Halton Housing Trust, Training Providers, Skills Funding Agency, the National Apprenticeship Service and Connexions. The HEP would be able to provide support to the eventual Project Company and DMPA Co in meeting its ESD Plan objectives.
- 7.16.5 The Bidders' proposals were evaluated under one of the areas of the Quality Mark part of the evaluation. The proposals were graded against the published evaluation criteria and a score awarded accordingly. The evaluation criteria were addressed towards the level of detail and robustness of the delivery plans, and thus the level of resource commitment being made to pursuing the Initiatives.

Preferred Bidder's proposals

- 7.16.6 The Bidder presented a very well structured and well thought-through submission with a very good level of detail on the approach to the various initiatives. The Bidder demonstrated a very good understanding of the Council's objectives and the required approach to delivery. The Plan benefitted from considerable work undertaken during the dialogue period and the proactive approach of the Bidder to engaging with the HEP.
- 7.16.7 The winning Bidder's ESD Plan will be bound into the Project Agreement and DMPA thus be 'contractualised' as commitments.

7.17 Qualitative Assessment of Value for Money of the Private Finance Approach to Procurement

- 7.17.1 The Qualitative Assessment of Value for Money of the Private Finance Approach has been updated from that submitted at OBC. Refer to section **Error! Reference source not found.**

7.18 Quantitative Assessment of Value for Money of the Private Finance Approach to Procurement

- 7.18.1 The Quantitative Assessment Value for Money of the Private Finance Approach has been reviewed. It is concluded that the assessment presented in the OBC is still valid. Refer to section 7.11 of the OBC.

7.19 Silver Jubilee Bridge

Procurement of SJB works

- 7.19.1 The overall scheme includes modifications to the existing SJB (the reconfiguration of the deck) and to its approach structures and roads (the Widnes and Runcorn delinking (downgrading) of the existing feeder roads).
- 7.19.2 The delinking works on the Widnes side will be carried out by the Project Company.

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- 7.19.3 The Council will procure the modifications to the deck. This work will be carried out after the new bridge has opened to traffic (i.e. the SJB will close to traffic).
- 7.19.4 The delinking works on the Runcorn side are still being developed and will be procured by the Council at a future date.
- 7.19.5 The Council will then be responsible for the 'infrastructure service' on SJB (the operation and maintenance of the structures, highway, cycle lanes, pedestrian footpaths etc).
- 7.19.6 The DMPA Company will be responsible for the 'tolling service' on SJB.
- 7.19.7 The Project Company will install the gantries. Responsibility for the gantry superstructures will be handed to the DMPA Company though the Project Company will retain responsibility for the bases.
- 7.19.8 The Council is proposing to defer major lifecycle maintenance on the SJB (including high level painting work on the bridge arch, waterproofing and expansion joint replacement, and resurfacing of approach structures on the Runcorn side) until after the new bridge has opened to traffic in order that it may be carried out under full closure since this will allow the work to be carried out more efficiently and cost effectively. The current requirement to work in live traffic without the relief afforded by closure or even long term lane restrictions places a high demand on resources; the unit costs for maintenance on the SJB are currently very high. The Council is in discussions with DfT on the required changes to the major maintenance scheme funding.
- 7.19.9 At Conditional Approval, it was proposed that the reconfiguration of the deck would be carried out by the Project Company after opening of the new bridge. The Council changed this approach to avoid the interface risk of having the Project Company and its future lifecycle maintenance contractor working on the bridge at the same time.
- 7.19.10 As recorded in the OBC, in the Project's development stage, the Council considered the benefits and disbenefits of transferring asset (latent defect) risk of the SJB to the Project Company but concluded: there was little market appetite for taking on asset risk and transferring latent defect risk would have affected affordability and, possibly, bankability; any transferred risk would most likely be capped; and transferring risk would be poor value for money since it would very likely be priced at a premium. The Council concluded that the procurement of the Project Agreement would have been made much more complicated if SJB maintenance had been included. Unlike some of the highways maintenance PFIs that have been awarded, there would be no 'critical mass' and the SJB would have had a disproportionate affect on this Project's procurement. Routine maintenance, as opposed to lifecycle, is arguably at the lower end of these considerations of risk and the possibility of incorporating this activity into the contract was considered. However, the Council concluded that, as regards the infrastructure, a 'clean break' approach was preferred.
- 7.19.11 The interfaces between the Council, the Project Company and the DMPA Company are regulated by the Project Agreement, DMPA and the interface agreement between the Project Company and DMPA Company. .

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- 7.19.12 The tolling service will 'tread lightly' on the SJB since open road tolling requires only the installation of gantries and 'small technology' (cameras, tag-readers, road-side processors etc). The interface arrangements will allow the Project Company and DMPA Company respectively to erect the gantries and install the ORT equipment and will provide for maintenance access to these.
- 7.19.13 The arguments for the Council retaining control are, as described above, based on practical and economic considerations. However, the outcome brings with it some wider benefits. The Council retaining control of the SJB is also consistent with it being restored to its original function as the 'local bridge'. The SJB sits at the heart of the Council's plans for the Sustainable Transport Strategy. In addition, regeneration of the areas around the bridge, once the approach roads are 'de-linked' and the separation that these create is eliminated, will be able to make the most of the SJB's landmark status and amenity value. Retaining control will allow the Council to better respond to change than would be the case if the SJB was 'wrapped into' a relatively inflexible long term DBFO contract.
- 7.19.14 The Council will continue to manage operation and routine maintenance of the SJB alongside the rest of the Halton road network in much the same way it does now. The Council's management of the SJB takes advantage of the considerable knowledge which has built up in its highways department and in its technical adviser, Mott Macdonald. Mott MacDonald has been involved with the bridge since its construction (as Mott Hay Anderson who was the designer in the early 1950s) and has a detailed understanding of this complex structure and its condition and history.

Silver Jubilee Bridge – Major Scheme Funding 2010

- 7.19.15 The current status of the funding for SJB maintenance works is described here:
- prior to 1998 LGR there had been significant underfunding of the maintenance of the SJB and its adjacent structures. As a result, the Council recognised that there was a need to address this neglect as a matter of priority;
 - this culminated in the preparation of a 10-year maintenance strategy which identified, costed and programmed the structural maintenance activity necessary to bring the condition of the structures to a steady state of maintenance;
 - the scale of work involved to address the maintenance backlog was so great that it fell within the DfT's definition of a Major Scheme;
 - the final draft of the Major Maintenance Scheme Bid was formally submitted to DfT on 8 March 2006 and comprised a bid for funding over a 10 year period totalling £42.7m (excluding optimism bias);
 - in late 2007, as part of the DfT's LTP announcement, it was confirmed that the Council had been awarded Grant funding totalling £14.3m for three years commencing 2008/09 which in addition to other funding sources would allow

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them to address the first four years of work included in the maintenance strategy;

- the programme of work was implemented;
- the Council subsequently revised the Bid; this involved rationalising the remaining programme of work in the context of the more detailed condition information then available and also reviewing the economic appraisal and value for money assessment. This review of the remaining element of the programme reduced the Bid's funding profile over a five year period to £18.6m total;
- the Major Scheme Bid was submitted in March 2010;
- in March 2010, DfT awarded major scheme funding for up to £18.6m to cover the Council programme of maintenance works;
- the approval of the Bid allowed the Council to address a backlog of major bridge maintenance in the SJB Complex, removing concerns about future unrestricted availability of the crossing and allowing the Council to reach a state of steady state maintenance which can be addressed through lifecycle maintenance programming;
- as noted above, the Council now proposes to defer remaining lifecycle maintenance until after the new bridge opens to traffic. This will allow the work to be delivered under full closure and thus more efficiently and cost effectively. The current requirement to work in live traffic without the relief afforded by closure or even long term lane restrictions places a high demand on resources; the unit costs for maintenance on the SJB are currently very high.
- the Council has approached DfT to explore the possibility of re-profiling (and reducing) the major maintenance scheme funding grant.

7.19.16 Following investment of the funding, the Council will have completed the backlog of major bridge maintenance activity identified within the 10-year SJB Complex maintenance strategy and will have a comprehensive knowledge of the condition and future maintenance demands for all elements of the SJB and its approach structures. Major maintenance works will have been completed and maintenance systems installed which will contribute to significantly extending asset life, remove concerns about future unrestricted availability of the SJB crossing and provide confidence that future maintenance may be delivered through a steady state, lifecycle planning based approach within the scope of future capital maintenance block allocations.

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7.20 Advance Works

Generally

7.20.1 The Council has undertaken advance (enabling) works where such works were considered to be of benefit in:

- providing bidders with better information as regards the Project's risks, liabilities and costs in order to reduce the quantum of the bidders' risk pricing;
- mitigating the Council's retained risks;
- giving best value for money as regards the work itself; and
- discharging a planning condition or a condition attached to an interested party agreement (where it is proposed that this is discharged by the Council in advance rather than contractually obliging the Project Company to do it).

Proposed Advance Works

7.20.2 A list of candidate schemes for Council advance works implementation was compiled. The works covered:

- advance (enabling) infrastructure works (utility diversions, minor demolition, vegetation clearance etc);
- advance works remediation (remediation of solvents on the Catalyst site in Widnes); and
- pre-construction surveys (as typically required by the Planning Conditions).

7.20.3 The works carried out are described below in more detail.

Advance (enabling) infrastructure works;

- Marine Site Investigation: boreholes were required along the alignment, primarily in the vicinity of each of the three bridge towers, to inform the tender design process for the design and construction of the main bridge foundations, structure and associated temporary works. This work was considered critical to the achievement of value for money bids. The Council worked closely with the three bidders and identified a need for additional boreholes and agreed their locations.
- Relocation of Anglo Blackwell Sub Station: replacement of an existing 33kv primary electricity substation. This was necessary as the existing substation, which is part of the main supply grid for the Widnes area, is located within the footprint of the scheme in the vicinity of the proposed Ditton Road Junction. Scottish power advised the Council that the period for construction of the replacement substation building and delivery of the replacement equipment would be between 18 and 24 months. Therefore, this work needed to be procured outside and in advance of the main contract in order that this lengthy lead in period did not have to be

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- accommodated within the main bridge contract.
- Demolition of Block 6 Catalyst Trade Park: to enable the contractor undertaking the remediation works to commence work. Failure to demolish block 6 would have delayed the remediation works planned for the site which in turn would have resulted in delays to the Environment Agency monitoring period for the site.
- Catalyst Trade park fencing and access works: before commencement of remediation works boundary structures needed to be in place. The works were required to fully secure the area of land required for the remediation works and prevent unauthorised access to the designated site.
- Asbestos surveys: provision of asbestos surveys for buildings acquired by the Project, a number of which were then demolished. There is a specific requirement in control of asbestos regulations 2006 (Regulation 7) for all Asbestos Containing Materials (ACMs) to be removed as far as reasonably practicable before demolition.
- Drainage Surveys: a drainage dye tracing survey was required to determine the existing 'as built' drainage connections and networks.
- Demolition of former Bio Trace & CP Films buildings: works involved the demolition of all structures down to ground slab level. Demolition was recommended as the buildings were of little economic value due to their, age, the bespoke nature of their construction, and problems associated with theft and vandalism which had left the buildings in a very poor condition.
- Ditton Road Primary Sub Station Earthworks and Piling: the project comprised earthworks and piling operations carried out in advance of the construction of a new primary electricity sub-station.
- Tree Felling at Wigg Island: covered the clearing and felling of an area of woodland of approximately 19,800 sqm at Wigg Island Local Nature Reserve. Required to remove any timetabling obstacle later on in the main works programme.

Advance works ground remediation

- Phase 8 Ground Investigation: the investigation works were associated with the remediation works at the Catalyst Trade Park / Thermphos sites. This work was required in order to provide a sound basis upon which to design the advanced remediation works at Catalyst Trade Park.
- Contamination Remediation Works at Catalyst Trade Park: the former site of the ICI chemical works was known to be contaminated with potentially harmful chlorinated solvents present as free product. There would be significant programme cost and uncertainties associated with this work if it was deferred for Project Company.
- Remediation Pilot Trials: gathered information on the in-situ soil parameters to allow for the assessment a number of potential remediation techniques in the field.

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- Ground Investigation Call-off Contract Phase 9: Covered ground investigation covering the former S. Evans & Sons Ltd scrap yard and Ditton Road Primary Sub-Station at Gussion Transport (adjacent to the scrap yard) in Widnes. Provided confirmation of geotechnical and geo-environmental data as well as design perimeters.
- Phase 11 Ground Investigation: installation of 11 monitoring wells into the Alluvium and Glacial sand deposits. The benefit of carrying out these works in the advance works stage is to fulfil commitment to Regulators (as set out in the Preliminary Long Term Contamination Management Strategy) to monitor the chlorinated solvent groundwater plume off-site arising from Catalyst Trade Park in the West Bank and Spike Island area of Widnes.;
- Pre Remediation Groundwater Monitoring: covers groundwater monitoring and sampling at approximately 48 existing monitoring wells located over an area of approximately 5.6 hectares. This work enabled baseline groundwater conditions to be established prior to the commencement of remediation works. Without baseline information it will be difficult to determine the success of the remediation works which in turn could jeopardise regulatory sign off.

Pre-construction surveys

- Hydrodynamics: Bathymetry / Topography Survey; and Scour Survey at the Manchester Ship Canal wall. The benefit of this work is that the planning requirements regarding preconstruction monitoring are discharged. These requirements are compulsory and state that surveys must be commenced 1 year prior to construction.
- Land Surveys: providing setting out co-ordinates and the location of physical boundaries on site and producing a plan to satisfy land registry requirements.
- Air Quality monitoring: the FAES for the Project contains commitments to carry out pre construction air quality monitoring.
- Site wide location survey mapping of underground services at Catalyst Trade Park: work involved using non-intrusive ground penetrating radar to provide details of line, size and depth of services along with type.
- Chemical Testing: accredited laboratory appointed to undertake analysis of soil and water samples. This work was required in order to provide a sound basis upon which to design the advance remediation works. The laboratory results will also be used to support / confirm that the remediation is working.
- Historic Buildings Recording Services: mitigation measures for above and below ground archaeology are required as part of the planning conditions. If demolition works were to go ahead without having carried out a historic building recording, the Council would

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be in breach of their planning consents. Ditton Road has been identified as being an area which requires historic buildings recording and a visual and photographic survey of the wider setting.

- Tidal Gauges: the tide gauges were originally installed at Wigg Island and Old Quay Lock to inform the Orders and Further Applications Environmental Statements. These gauges measure the following parameters: level; conductivity; and temperature. Failure to upgrade would have resulted in gauges failing by October 2013.
- Additional assessment of sediment and surface water quality: Information will assist the Preliminary Long Term Contamination Management Strategy. The benefit of carrying out these works in the advance works stage is as follows: to fulfil the commitment to Regulators (as set out in the Preliminary Long Term Contamination Management Strategy) to undertake further assessment of Bowers Brook; to provide information to support the design process at preferred bidder stage for what is considered to be a key risk area; and allow assessment of the Council's long term liabilities in the context of the Preferred Bidder's design.
- Consultancy & Survey Services relating to Aquatic and Surface Water Quality: surface water quality surveys to monitor water quality during the pre-construction phase to ensure a robust baseline data set is available up to the commencement of construction. The primary benefit of this work is so that the Planning requirements regarding preconstruction monitoring are discharged. These requirements are compulsory and have to be carried out 2 years prior to construction.
- Bird & Mammal Surveys. The primary benefit of this work is so that the planning requirements regarding preconstruction monitoring are discharged.
- Orchid Relocation & Safeguarding. The primary benefit of this work is so that the planning requirements regarding preconstruction monitoring are discharged.

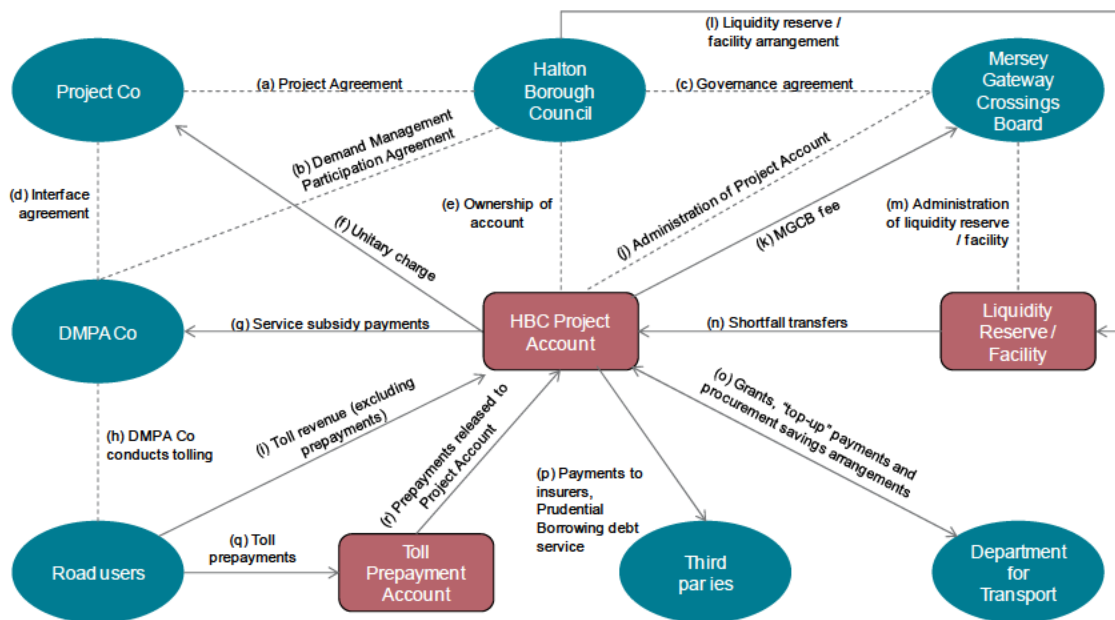
8 FINANCIAL CASE

8.1 Introduction

The Financial Case presents the key financial parameters of the proposed transaction with Merseylink and highlights any significant departures from what was set out in the OBC.

8.2 Description of financial arrangements

At OBC stage all project costs were allocated to the ProjectCo and accounted for within the unitary charge. At FBC the structure of the transaction is more sophisticated, with costs being allocated to the Project Co, DMPA Co, MGCB and the Council's Project Account. The key cash flows and contractual arrangements are shown in the diagram below.



Each of the key arrangements set out in the diagram above is described below.

- a) *Project Agreement.* The agreement between the Council and the Project Co for the designing, building, financing and operation of the hard project assets.
- b) *Demand Management Participation Agreement (DMPA).* The agreement between the Council and the DMPA Co in respect of tolling activities. The Project Agreement and DMPA are being entered into via a single procurement.
- c) *Governance Agreement.* The agreement between the Council and the MGCB setting out the responsibilities and conduct of the Board and the Council.
- d) *Interface Agreement.* The agreement will set out arrangements between the Project Co and the DMPA Co.

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- e) *Ownership of account.* The Project Account will need to be in the name of the Council to satisfy part of the criteria for tolls being outside the scope of VAT and, we understand, for Local Authority regulatory reasons.
- f) *Unitary Charge.* The Unitary Charge will be paid from the Project Account to the Project Co by the Council under instruction from the MGCB.
- g) *Service Subsidy.* The Service Subsidy will be paid from the Project Account to the DMPA Co by the Council under instruction from the MGCB.
- h) *DMPA Co conducts tolling.* Tolling activities will be conducted by the DMPA Co.
- i) *Toll revenue (excluding prepayments).* The proceeds of tolling will be paid into the Project Account. Prepaid tolls will have separate arrangements as described below.
- j) *Administration of Project Account.* The MGCB essentially takes the role of “managing agent” of the project, and as part of its responsibilities will notify the Council of payments to be made to and from the Project Account.
- k) *MGCB fee.* The MGCB receives a fee on account of the management services it provides. The fee is assumed to be levied on the basis of costs plus a margin.
- l) *Liquidity reserve / facility arrangement.* A liquidity facility will be arranged and held in the name of the Council.
- m) *Administration of reserve / liquidity facility.* The liquidity facility will be administered by the MGCB.
- n) *Shortfall transfers.* Where there are insufficient funds in the Project Account to meet the Unitary Charge and Service Subsidy, the MGCB will instruct the transfer of funds from the liquidity reserve / facility into the Project Account. This ensures consistency in the way the DMPA Co and Project Co are paid. The MGCB will have in place processes to notify the Department in advance that “top-up” payments may be required.
- o) *Grants, “top-up” payments and procurement savings arrangements.* Grants and any applicable top-up payments will be made by the Department into the Project Account. Any rebates due to DfT under the procurement savings arrangements will be paid from the Project Account.
- p) *Payments to insurers, Prudential Borrowing debt service.* Other project costs such as insurance, MGCB direct employment and administration costs and Prudential Borrowing debt service will be paid from the Project Account to third parties by the Council under instruction from the MGCB
- q) *Toll prepayments.* Toll prepayments will be made into a separate Toll Prepayment Account held by the Council.
- r) *Prepayments released to Project Account.* The DMPA Co will provide notification to the MGCB when funds are to be released from the Toll Prepayment Account into the Project Account based on its usage reconciliation and reporting.

8.3 Summary financial information

8.3.1 Overall cost comparison

As described, at OBC stage all project costs were accounted for within the unitary charge while at FBC costs are allocated to the Project Co, DMPA Co, MGCB and the Council's Project Account.

8.4 Affordability

A requirement of the procurement documentation was that bidders submit an affordable tender. The transaction as currently proposed meets the affordability limit in each year of operations, as shown by the graph below.



8.5 Preferred Bidder's Financial Plan

Please note the financing requirements of the DMPACo are minimal and except where noted this section therefore relates to the ProjectCo only.

8.5.1 Structure

Merseylink is proposing and has relevant funder support for a hybrid bank and IUK-guaranteed bond financing structure with an indicative underlying rating of [REDACTED] obtained from Moody's and S&P respectively. The financing structure also includes a grant bridge loan, mezzanine debt and shareholder funds in the form of sub debt and pinpoint equity. Sources and uses of funds during construction are shown below.

Categories	£'000s	%	Categories	£'000s	%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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The drawing down of the different tranches of funds will be performed in the following descending order:

1. Equity and Senior Bonds
2. Capital grant bridge facility
3. Senior bank term loan facility
4. Mezzanine debt
5. Subordinated debt

It is necessary for capital markets instruments to be drawn upfront to meet the requirements of investors. Thereafter, the above drawdown waterfall is in inverse order of cost, i.e. capital grant first, then senior bank debt, then mezzanine debt and finally subordinated shareholder debt (equity).

During operations the ProjectCo uses its unitary charge receipts to cover project operating and lifecycle costs, taxes, debt service and returns to investors.

8.5.2 Indexation

The portion of the unitary charge subject to indexation (RPIx) has been set by Merseylink at 40%, [REDACTED]

[REDACTED]

The combined indexation of the Merseylink's unitary charge and service subsidy is lower than that assumed in the OBC. The Council's sources of funds to meet the unitary charge and service subsidy are toll revenues and DfT support grants, the former being potentially inflation linked while the latter declines over time according to a fixed schedule. The project is considered to be well structured from an inflation perspective.

8.6 Project cost information

The sources of procurement savings can be identified by comparing the values of the components of Merseylink's unitary charge and service subsidy and the other project costs to their values at OBC stage as follows:

(a) Variation in costs attributable to the project companies

The table below shows differences in project costs that continue to be met by the project companies. These are direct drivers of the unitary charge and service subsidy¹⁸. The project cost differences are driven by the competitiveness of the procurement and innovation and cost saving activities by Merseylink relative to the OBC.



The difference in WACC is driven by a combination of lower required returns on equity and lower debt costs. The reasons for these movements are as follows:

- Lower required returns on equity*
1. High market appetite for quality assets combined with a lack of other attractive investments in the climate has applied downward pressure to returns;
 2. Acceptance that required primary market returns have historically been too high in light of subsequent performance. Liquidity in the secondary market has been increasing over the last few years and since OBC submission, which has driven down secondary market required returns and improved valuations. This means that an investor in the primary market (cognisant of a future exit) does not require as high a required return because "exit values" have improved; and
 3. Continued supportive / well understood political and legal climate.
- Lower debt costs*
1. Historically low interest rates in the wider economy;

¹⁸ At OBC stage there was only one project company, covering all responsibilities including tolling. At Preferred Bidder tolling activities are the responsibility of a separate project company, the DMPA Co.

2. Improving bank balance sheets has increased competition in the lending market, reducing bank debt margins for the small number of attractive opportunities in the market;

3. Optimisation of the project's financial structure to take advantage of preferred price points in the bond and bank markets (tenors of instruments matched to investor appetite); and

4. The introduction of UK guarantees has increased market liquidity.

(b) Variation in costs attributable to the Council's Project Account

The table below shows differences in project costs that are being met directly from the Project Account rather than via the Project Co. Net MGET costs are the costs of the Mersey Gateway Environmental Trust over and above the [REDACTED] payment from the Project Co to the trust. The IUK counterparty support fee was not applicable at OBC stage since counterparty support as it stands at Preferred Bidder was not fully developed at OBC stage. The variation in insurance costs and the MGCB management fee are the result of more detailed estimates having been prepared at Preferred Bidder stage on account of a greater understanding of the needs of the project

[REDACTED TABLE]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

8.7 Funding

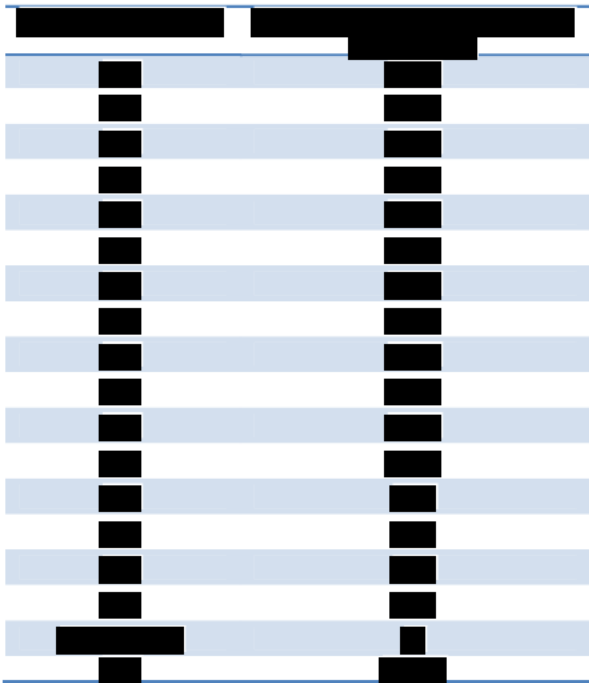
The scheme funding requirement was set out at OBC in two parts:

- availability support grants to support the payment of project costs during the operating phase of the project; and
- funding for costs outside the main contract (preparatory costs, land assembly costs, and advanced works remediation costs). This element of the funding is complete.

In addition, at FBC stage the DfT is proposing to provide counterparty support to the project. This is covered in the Commercial Case.

8.7.1 Availability Support Grant

Following discussions with DfT in October 2011, the DfT provided conditional approval for funding in the form of a capped annual availability support grant of £14.55m for each year of the 26.5 year operating phase of the project. In the course of conducting the Competitive Dialogue, it became apparent that the affordability profile resulting from the combined toll revenues and support grants posed affordability challenges to bidders in the early years of the project, with surplus headroom in later years. In September 2012 the DfT agreed the revised support grant profile shown below, which carries the same present value as the original support grants.



As prescribed by the Funding Conditions, at Financial Close a calculation will be performed of the savings generated during procurement through comparison of project costs to the OBC shadow bid unitary charge and shared with DfT on a 70:30 basis (in favour of DfT). The sharing will be achieved through rebates to the DfT according to the available funds of the project. During operations, where toll revenue exceeds forecasts, surpluses are also shared with DfT with a ratio of 85:15 (in favour of the DfT).

The DfT funding is conditional on the unitary charge of the scheme not exceeding the base case set out in the OBC. While the final position will not be known until Financial Close, this is projected to be achieved with headroom available.

8.8 Robustness testing

The results of updated robustness tests have been provided to DfT in advance of this document and can also be found in the appendices.

8.9 Quantified Risk Assessment

The Quantified Risk Assessment is as per the OBC and has been demonstrated by the three Final Tenders received to have been prudent.

8.10 Quantitative Value for Money analysis

The quantitative VfM assessment has been updated to reflect the current proposal from Merseylink and in accordance with the HMT and Infrastructure UK standard Quantitative Evaluation Spreadsheet (QES) and on the basis of prior discussions HMT. The results are summarised below.

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Scenario	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The VfM analysis provides evidence that from a quantitative perspective the current Merseylink proposals offer value for money and that value for money has improved since OBC. The complete updated assessment can be found in the appendices to this FBC.

8.11 Accounting treatment

The anticipated accounting treatment for Mersey Gateway has been considered by reference to both ESA 95 and IFRS. In summary the conclusions are:

- under IFRS the project is likely to be accounted for on the balance sheet of the Council. Accounting models have been prepared to demonstrate the impact which have been reviewed and considered by the Council’s Director of Finance; and
- under ESA 95 the project is likely to be accounted for as ‘on balance sheet’ for national accounting purposes. This is a change from OBC arising from revised ESA treatment where tolls exceed 50% of funding for the project, as is the case with Mersey Gateway. DfT have been advised of this change previously.

8.12 VAT Treatment of Toll Income

The VAT treatment of the tolls is determined by reference to the party that is seen by HMRC to be the ‘principle’ in the toll transaction. Following correspondence with HMRC it has been confirmed that the current commercial and financial structure results in tolls being outside the scope of VAT.

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8.13 Section 151 Officer Sign Off

A copy of the sign off by the Council's Chief Finance Officer will be forwarded under separate cover.

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9 LIST OF APPENDICES

9.1.1 The following appendices are provided as separate files to this FBC.

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Reference	Part of the Business Case	Notes
Introduction		
1-A	Mersey Gateway Sustainable Transport Strategy	
1-B	Mersey Gateway Regeneration Strategy	
1-C	DfT Conditional Approval funding letter dated 19 October 2011	
1-D	Chief Executive's letter to DfT confirming acceptance of the Conditional Funding Approval and the funding conditions	
1-E	Section 151 Officer certification	
1-F	Memorandum of Understanding with Warrington Borough Council	
1-G	Memorandum of Understanding with the Highways Agency	
Strategic Case		
-	-	-
Scheme Description		
4-A	Toll and Road User Charges – Explanation	
4-B	Guidance on Local User Discount Scheme	
Value for Money Case		
5-A	Review of Value for Money Case	
5-B	Appraisal of Social and Distributional Impacts	
Delivery Case		

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Reference	Part of the Business Case	Notes
[REDACTED]	[REDACTED]	
[REDACTED]	[REDACTED]	
[REDACTED]	[REDACTED]	
6-C-1	Benefits Realisation Plan	
6-C-2	Monitoring and Evaluation Plan	
6-D	Gateway 2 Action Plan	
6-E	Mersey Gateway Communications Strategy	Supporting action plans also attached: 2008-2009 Communications Action Plan 2009 – 2011 Communications Action Plan 2011 – 2013 Communications Action Plan
6-F	Stakeholder Management Plan	
[REDACTED]	[REDACTED]	
6-H	Schedule of Third Parties	
Commercial Case		
7-A-1	HMT Letter of Support	
[REDACTED]	[REDACTED]	
[REDACTED]	[REDACTED]	

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Reference	Part of the Business Case	Notes
[REDACTED]	[REDACTED]	
Financial Case		
[REDACTED]	[REDACTED]	

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