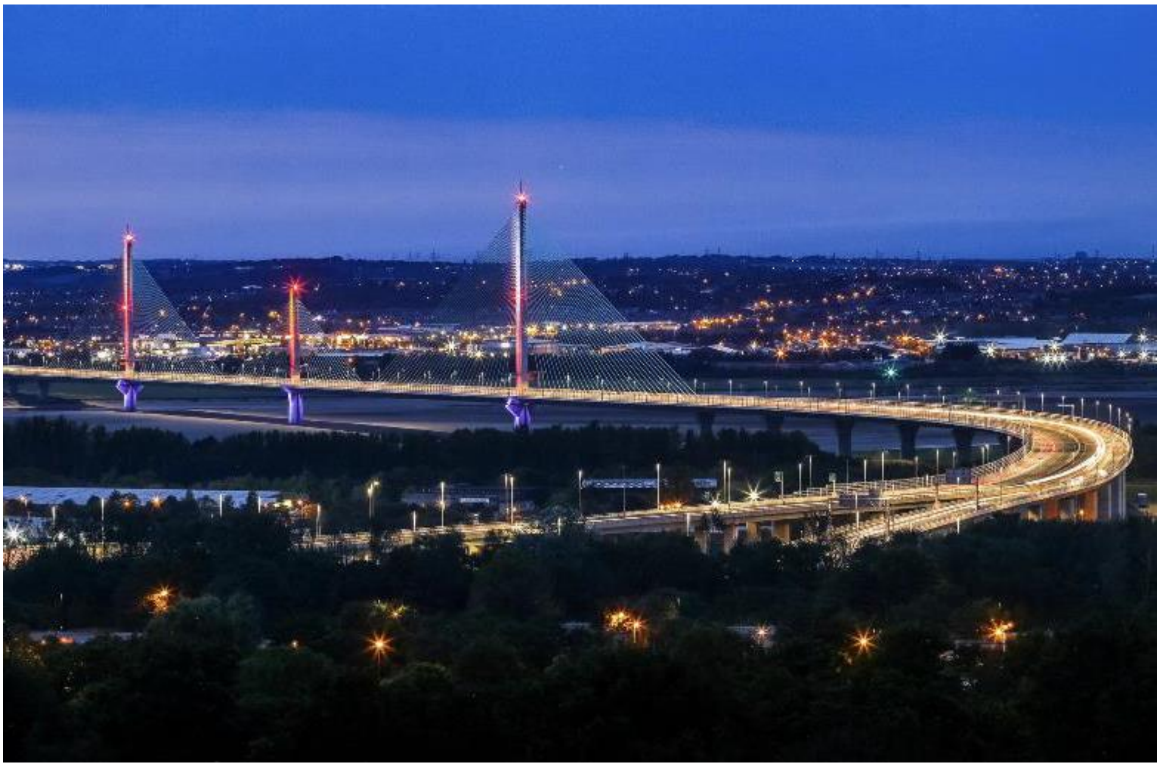
Mersey Gateway Crossings Board Ltd

Second Review Point – September 2023



Contents:

PART 1 – EXECUTIVE SUMMARY

1.1 The purpose of this report is to review the performance of the Mersey Gateway Project (the Project) (a new six-lane toll bridge over the river Mersey and the connecting road network) since opening to traffic in October 2017 to March 2023 (the financial year end) and to look forward over the three-year period from 1 April 2023 to 31 March 2026 in order to:

- Assess the level of government grant and tolls required to ensure the financial robustness of the Project (look forward); and
- Calculate the Actual Excess (AE) as defined in the Funding Letter (FL) (see below) (look back).

This review is defined in the FL as the **second Review Point** (SRP).

1.2 In addition to looking forward over a three-year period the FL requires a "horizon scanning" five-year plan (5YP) (to be updated annually) to ensure early identification of potential financial pressures and to enable corrective action to be taken. The model used for the three-year forecast undertaken at 31 March 2023 (SRP) has also been used for the 5YP and the timing of the 5YP synchronised with the SRP and the subsequent review point cycle (a triannual event).

1.3 The review has been governed by the requirements and approach set out in the FL (originally drafted March 2014 and updated on 24 February 2016) which provides a framework for the funding of the Project and supporting governance. The FL predates the construction and operation of the Project and therefore was based on assumptions existing at the time. During the review process it became apparent that the precise methodology set out in the FL does not sit easily with the actual outcomes and / or is impractical or not possible to implement. As a result, a pragmatic and simplified approach to forecasting has been taken in collaboration with the Department of Transport (as detailed in this report).

1.4 This simplified approach to forecasting traffic and the resultant revenues has been taken, particularly as the forecast period is short (three years for the SRP and five years for the 5YP) and the long-term impact of COVID-19 remains uncertain. The approach taken is based on observed traffic flows, DfT strategic forecasts of traffic growth and a more detailed analysis of toll sensitivity (ie elasticity of demand). The key conclusions from the look forward are:

- The traffic and revenue forecasts at the SRP (the period 1 April 2023 to 31 March 2026) and in the 5YP (the period 1 April 2023 to 31 March 2028) indicate that the Project can operate within the existing grant funding as set out in the FL; there is no requirement for additional support from the DfT; and
- In order to achieve financial viability, an increase in tolls of some twenty percent is expected to be applied in spring of 2025 (the first increase since opening and less than the estimated inflationary increase of some thirty percent).

1.5 At the SRP the FL stipulates that the AE is calculated by applying the mechanism as set out in the FL with the intention of comparing actual revenues (tolls, account subscriptions, Penalty Charge Notices (PCN) and grant monies) with actual expenditure. Any resultant excess is shared eighty five percent to the DfT and fifteen percent to Halton Borough Council (HBC). As noted above, the precise methodology set out in the FL does not sit easily with the actual outcomes and / or is impractical or not possible to implement and accordingly a pragmatic approach has been taken to ensure the intention of the FL has been reflected in the calculations and outcome. The completion of the SRP calculations results in an AE available to be shared between the DfT and HBC of £52.647m; £44.75m (of grant funding not required) to be returned to the DfT.

1.6 The FL stipulates that at the SRP the Project should demonstrate value for money (VFM). For the purpose of the SRP VFM has been assessed by reference to delivery of the Project’s seven strategic objectives. These include relieving congestion; improving network resilience; applying minimal toll charges while maintaining financial robustness; supporting regional growth; improvement of air quality and the environment in general; improving public transport links across the river; and the encouragement of cycling and walking. An assessment of the extent to which the seven strategic objectives have been achieved is captured in a Monitoring and Evaluation Plan Report (MEPR) which is regularly submitted to the DfT. The MEPR agreed with the DfT in 2022 as updated to 31 March 2023 demonstrates that over the first five and half years of operation up to the SRP the Project has delivered the benefits envisaged in the seven strategic objectives.

1.7 A communication strategy has been put in place to ensure all stakeholders deliver clear and consistent messages regarding the AE revenue sharing, future grant funding to be provided by the DfT and plans for a proposed increase in tolls. The details underpinning the strategy will be agreed between all stakeholders in draft and finalised once the SRP conclusions have been formally agreed.

PART 2 – BACKGROUND

2.1 Project Overview

2.1.1 The Mersey Gateway Project (the Project) is a major civil engineering scheme consisting of a six-lane cable-stayed toll bridge over the river Mersey and a 5.8 mile road network connecting the new bridge to the main motorway network in the northwest of England. At a local level, the Project provides a much-needed new link between the towns of Runcorn and Widnes and allowed the existing Silver Jubilee Bridge (SJB) to be primarily used for local traffic.

2.1.2 The Mersey Gateway Crossings Board Ltd (MGCB) is a special purpose vehicle established by Halton Borough Council (HBC) with the delegated authority to deliver the Project and to administer and oversee the construction, maintenance and tolling operation of the new Mersey Gateway Bridge (MGB) (including the tolling of the existing SJB). MGCB's terms of reference and delegated authority are expressed in a Governance Agreement with HBC, dated 28th March 2014, set to last for sixty years. The project construction costs were circa £600m with a total whole life cost of circa £1.8bn at 2014 prices.

2.1.3 The Project Agreement (PA) is the long-term contract which HBC and MGCB entered into with the Project Company (Merseylink) for the design, build, part finance and provision of operational and maintenance services for the MGB and surrounding road network. Unless terminated early in accordance with its terms, the PA will expire in 2044.

2.1.4 The Demand Management Participation Agreement (DMPA) is the main tolling agreement for the delivery of tolling services. It is a contract with the DMPA Company (Emovis) for end to end tolling services (set out in their revenue collection business plan) and the Tolling Subcontractor (Emovis, who in addition to their role as DMPA company, are a sub-contractor to Merseylink with responsibility for the installation and maintenance of the toll collection equipment on the bridges). HBC and MGCB are party to the DMPA. Under the agreement Emovis provide demand management services which, broadly, cover the collection of tolls and enforcement of the tolling regime as well as strategic advice in relation to tolling. The agreement initially ran for a period of seven years from the 14th October 2017, but has been extended by five years to expire in October 2029.

2.1.5 Mersey Gateway Environmental Trust (MGET) is an independent Charitable Trust set up in 2010 as part of the planning approval for the Project to promote the conservation, protection, and improvement of the environment across a 1600 hectare area of the Upper Mersey Estuary running all the way from the SJB to the new MGB and up-river, as far as Warrington.

2.2 Funding Letter

2.2.1 Central Government (the Department for Transport (DfT)) provide a funding package to support the Project. The Funding Letter (FL) dated 24 February 2016 sets out the level of Government Grant and the conditions which must be satisfied to secure the funding and the wider funding conditions for the Project, see Appendix 2.1 for the FL. The following provisions should be noted:

- Grant monies are currently provided in the form of Availability Support Grant (ASG), providing "general" financial support to the Project and Extended Discount Scheme Grant (EDSG), topping up the Local User Discount Scheme (LUDS) to meet the cost of all journeys made by local Halton residents (the first 300 per annum being met by HBC under the LUDS), both grants being graduated payments as set out in Annex A of FL (maximum amounts).
- At specified Review Points the DfT and MGCB must consider the financial performance of the Project and agree forecasts for the revenues and costs of the Project and MGCB (to the next Review Point); the details of reviews are to be agreed with DfT prior to being initiated. Each Review Point is to include financial robustness and value for money. (Clause (xi)).
- The next review, covered by this report, is the **second Review Point** (SRP) which is held five years after full-service commencement. (Clause (xii)) (see 2.4.1 re first Review Point). However, as the MGB commenced operations on 14 October 2017, the DfT agreed (Investment Committee approval given in 2021) to take a pragmatic approach and undertake the review at the 31 March 2023 year end (rather than at 13 October 2022). Reviews are to be undertaken triennially thereafter.
- The SRP (and subsequent Review Points) is to involve the review of performance for the next period (ie three years) including a consideration of revenues achieved in the preceding years, future economic and transport forecasts and other issues that will impact on revenues as agreed between the DfT and MGCB (such as elasticity of demand). (Clause (xiv)).

- At the SRP and subsequent Review Points the Government will consider whether it will continue to support and fund a 100% local user discount scheme ie to continue (or otherwise) to provide the EDSG.
- At the SRP (and subsequent Review Points) a look back exercise is undertaken, and a calculation made to assess the quantum (if any) of an AE as defined by populating Table 2 of Annex A to the FL with the actual outcome of the Project during the review period. (Clause (xviii)). Any resultant AE is shared 85% DfT and 15% HBC. Although the FL requires the AE to be paid to the DfT within 30 days of the end of the Review Point (ie by 30 April 2023 for the SR) a more realistic timetable is to be agreed with the DfT.
- At each Review Point due consideration is to be given to the value for money (VFM) of the Project. (Clause (xxxviii)). An assessment of the extent to which the seven strategic objectives have been met will be made in order to assess VFM.
- The financial modelling for the Project included an annual RPI (estimated at 2.5%) increase in the average weighted toll as required by the FL. (Clause (xxxiv) 1). An annual increase in toll charges is impractical to implement (signage, public consultation, bedding in period etc) and accordingly a triannual increase in tolls has been proposed, subject to ensuring financial robustness of the Project.
- In exceptional circumstances the DfT agreed to provide additional financial support in the form of Additional Availability Support Grant (AASG). In order to assess the need for AASG MGCB provide an annual rolling five year look forward projection (Five Year Plan (5YP)) of project revenues, grants and costs. (Clause (x) 2). The timing of the submission of the rolling 5YP has been synchronised with the SRP and will be at future Review Points.

2.3 Approach to Second Review Point

2.3.1 The FL provides a framework for the funding of the Project and the supporting governance. It should be borne in mind that the FL, originally drafted March 2014 and updated on 24 February 2016 (to incorporate the EDSG), predates the construction and operation of the Project and therefore was based on assumptions existing at the time. The Project has now had the benefit of over five years operational experience which has resulted in identification of a number of unexpected shortcomings in the FL if applied without due consideration.

2.3.2 Accordingly, where provisions in the FL do not sit easily with actual outcomes and / or are impractical or not possible to implement a collaborative (with the DfT) and pragmatic approach has been taken. In particular:

- It has been acknowledged that the look forward to the next Review Point is a timescale of three years. Accordingly, a more simplistic approach to the look forward has been taken; the more complex modelling exercise as perhaps envisaged by the FL has not been undertaken. The added uncertainty due to the longer-term impacts of COVID-19 further supports this approach to the modelling. The approach taken contributes to a significant saving; ensures expertise is held in house (reducing reliance on third parties); and addresses the inability to refresh the long-term model used to support the Full Business Case (FBC) for the Project. Although the approach to modelling for the shorter three-year review period has been agreed with the DfT's modelling experts it will be revisited at the next review, particularly as the uncertainty of the longer term impacts of COVID-19 should have diminished by the time of the next review.
- The "horizon scanning" 5YP is to be refreshed annually. It is recognised that it is time and cost effective for all parties for the 5YP to be an extension of the triannual review ie that the same model will be used for both the Review Point and the 5YP, the 5YP being a two year extension of the triannual review. In intervening years, the 5YP will continue to be refreshed by rolling the model forward a further year. The timing of the 5YP will also be synchronised with the triannual review cycle.
- The FL requires that Table 2 of Annex A is populated to calculate the AE. The results of the look back exercise have highlighted that a number of items were not included in Table 2. Accordingly, the Table 2 calculation has been adjusted to ensure that all items of income and expenditure are included in the AE calculation; without this monies would become "trapped" in the Project.
- The approach envisaged in the FL to the assessment of VFM is heavily reliant on the original long-term model. As a more targeted approach has been taken to modelling (ie the three plus two year approach described above) VFM has been assessed by reference to achievement of the seven strategic objectives of the Project. This approach also creates efficiencies as it uses the outputs from the Monitoring and Evaluation Plan Report (MEPR) which monitors the seven strategic objectives.
- It is recognised that communication of revenue sharing (the AE) could be a sensitive matter and therefore the DfT and MGCB are working closely together to

ensure consistent, open and clear messaging. This is summarised in the communication strategy.

2.4 Project Update Since First Review Point

2.4.1 The first Review Point (FRP) of the Project was at June 2017 (prior to the opening of the MGB), its purpose being to consider the forecasts (updated as appropriate) and to ensure that the Project remained financially robust and VFM. The FRP report concluded that:

- Construction of the MGB was on schedule to meet the target Permissions to Use date of 15th September 2017.
- Preparations were on target for the registration of user accounts and the HBC residents LUDS to begin in July 2017. The web site for toll collection, Merseyflow, was launched in February 2017.
- Proposals for the structure of MGCB following the advent of the operational phase had been considered and a strategy adopted. The proposal streamlined MGCB at Director level.
- The traffic modelling undertaken for the FRP indicated that the Project still represented VFM and quantified the likely financial impact of the Chancellor's announcement of 24th July 2014 on HBC's LUDS (ie that all LUDS journeys were to be paid for).
- Budgets were in place to meet the financial demands of the construction and land assembly. There were outstanding land issues to settle and Part 1 LCA Claims yet to be lodged which could breach financial allocations.
- Financial forecasts for the Project had been updated and there was no need to consider any amendment to the DfT's grant funding of the Project.
- An evaluation and monitoring framework had been developed to provide evidence on the performance of the operation of the MGB (the EMPR).

2.4.2 The award-winning MGB opened to traffic in October 2017 after a three and half-year construction period. The MGB was formally opened by Her Majesty Queen Elizabeth II in May 2018. Following the opening of the MGB there remained significant works to be undertaken away from the project road, including decommissioning of the temporary trestle bridge across the river, removal of haul roads across environmentally sensitive areas and the reinstatement of the land. Works Completion was achieved in March 2022 and this effectively drew a line under the construction element of the Project and all related financial matters.

2.4.3 **Silver Jubilee Bridge** (SJB): As the MGB opened the SJB closed for repairs and reconfiguration to improve pedestrian and cycling facilities, together with additional works which included substantial de-linking of the approach roads on the southern side of river. The SJB did not reopened to traffic until February 2021. The reconfigured SJB has only one lane (instead of two substandard lanes) in each direction and a dedicated cycle path. The majority of the vehicular traffic journeys across the SJB are now undertaken by local residents on the LUDS.

2.4.4 **Mersey Gateway Crossings Board** (MGCB): As outlined at the FRP, MGCB has restructured, reducing the number of executive directors from three to two (although retaining four non-executive directors); there have been four new appointments since 2017. Through natural wastage the number of MGCB staff reduced from 14 to 9 as MGCB adapted from oversight of construction to oversight of maintenance and tolling operations.

2.4.5 **Halton Borough Council** (HBC): HBC is the Charging Authority responsible for issuing Penalty Charge Notices (PCNs) to users of the crossings that fail to pay the toll/charge. As the FL was based upon 100% compliance, it was envisaged that HBC would have little involvement in the management of the Project. However, as the Charging Authority they have had to become involved in enforcement matters and incurred costs which were not foreseen.

2.4.6 **Mersey Gateway Environment Trust** (MGET): On the opening of the MGB MGET became responsible for the Environmental Services contract, ensuring that the environmental monitoring, previously undertaken by Merseylink during construction, was continued post opening. In addition to this key task MGET offers a new approach to the Upper Mersey Estuary, with innovative ecological management for people and wildlife to enjoy this special landscape for generations to come. Working with landowners and stakeholders, MGET is dedicated to monitoring and improving the estuarine environment, bringing long-lasting positive change to the area. MGET is primarily funded through the Project, which received a payment of £3m from Merseylink to fund the environmental monitoring works post opening.

2.4.7 Traffic Summary:

- Traffic on opening of the MGB exceeded daily forecast by almost 10,000 crossings per weekday.
- Currently averaging over 2m crossings per month over both bridges.
- Traffic split between MGB and SJB is 85:15 in line with forecasts.
- Local users account for one third of all traffic.
- The split between users with a prepaid account and those that post pay is 62:38 as of March 2023.

PART 3 - TRAFFIC AND REVENUE FORECAST

3.1 Background

3.1.1 At each review point the Funding Letter (FL) requires the Mersey Gateway Crossings Board (MGCB) and the Department for Transport (DfT) to agree forecasts for revenues, costs, assess the financial robustness of the Mersey Gateway Project (the Project), analyse the impact of the Local User Discount Scheme (LUDS) and consider value for money (VFM). The second Review Point (SRP) look forward runs for three years from 1 April 2023 and requires full details of the approach to be agreed prior to being initiated.

3.1.2 As stated in the FL (Clause (xii)), it had been intended to update the existing model, however the external consultants are unable to provide a monetary estimate to accompany traffic projections and similarly, they cannot provide an indication of elasticity of demand due to restrictions imposed by their insurers. Accordingly, with dialogue and then approval from the DfT a pragmatic approach has been taken and modelling has been undertaken without the input of Mott McDonald.

3.2 The Approach to Forecasting Revenues and Expenditure

3.2.1 To forecast revenues it was agreed with DfT that a combination of actual traffic data, national traffic growth data published by the DfT and Emovis' Toll Change exercise would be used to forecast traffic which in turn would be monetised to generate revenue forecasts for the "Look Forward" element of the SRP. At the present time, the long-term impact of COVID-19 remains uncertain, further giving weight to the need to adopt a simpler approach to modelling in order to forecast revenues. At the next Review Point, the wider impact of COVID-19 should be more evident, meaning an appropriate approach to modelling will be taken given the position at that point.

3.2.2 Actual Traffic Figures

3.2.3 The Project has been in operation since October 2017, and as a result a considerable amount of traffic data has been collated providing a clear and consistent pattern of vehicle crossings, classes, and registration type.

3.2.4 Traffic data from 2022/23 Financial Year (FY) forms the base of the traffic forecasts. In terms of absolute figures, the data was close to and in some months surpassed pre-pandemic levels of 2019. The reason for using 2022/23 FY traffic data instead of pre-pandemic 2019 data is that the 2022/23 FY data has some post pandemic characteristics that are expected to continue in the short to mid-term. For instance, a reduction in Registered commuting traffic as more workers can work from home in comparison to 2019.

3.2.5 National Traffic Growth Data

3.2.6 To forecast traffic growth, traffic growth data published by DfT in The National Road Traffic Projections-2022 (NRTP-2022) and The National Trip End Model (NTEM) were analysed. A detailed review of their strengths and weaknesses was conducted. Also, the projected growth from the published data was compared to previous observed traffic growth data on the Project. for more information on NRTP-2022 & NTEM please visit the following relevant websites:

NRTP-2022-https://www.gov.uk/government/publications/national-road-traffic-projections

NTEM-https://www.data.gov.uk/dataset/11bc7aaf-ddf6-4133-a91d-84e6f20a663e/national-trip-end-model-ntem

3.2.7 In conjunction with the DfT, it was agreed the NRTP-2022 data would be used as it is a standard approach which is commonly used to forecast traffic growth. The NTEM data is subject to a more complex process of factoring along with Variable Demand Modelling adjustments to trip making and therefore may not be entirely appropriate for the purpose in hand. In addition, there are no outputs for non-car trips on NTEM meaning growth data for non-car vehicles would have come from other sources. Given the short-term nature of the projections, limits to the NTEM data and the absence of a network model, the approach proposed was considered to be appropriate and sufficient.

3.2.8 Emovis' Toll Change Exercise

3.2.9 In August of 2021, Emovis, the organisation responsible for collecting the Project revenues and other tolling infrastructure around the world, conducted an exercise to assess the potential impact of an increase in tolls on the Project's revenues and traffic figures.

3.2.10 The use of Emovis' Toll Change Exercise as a way to measure and assess the impact of an increase in tolls on traffic numbers and levels of revenues was accepted as robust for the purpose of the "Look Forward" second Review Period (LF-SRP). The LF-SRP forecast is not looking to determine a completely new tolling regime for a new link, instead there is an established regime in place, the forecasting horizon is relatively limited (3 Years rather than 60 years) and the longer-term impacts of COVID-19 on travel behaviour are still uncertain. Therefore, it was agreed that developing a new detailed model at this time was not appropriate or proportionate.

3.2.11 Forecasting Project Expenditure

3.2.12 The two principle items of expenditure, the Unitary Charge paid to Merseylink and the Service Subsidy paid to Emovis are index linked, and the impact of high inflation to date and forecast in the near future will push these costs above those forecast in both the FL and the FYP. Although the project has benefited from actual expenditure in the areas of insurances, Prudential Borrowing interest and MGCB costs being below forecast, these savings will be eroded by the increases in principle items of expenditure.

3.2.13 Proposed Increase in Tolls

3.2.14 The FL (Clause (xxxiv)) requires MGCB as a minimum to "*increase average weighted tolls/charges annually by RPI*". Also, MGCB has "*the ability to decide independently to increase average weighted tolls/charges by as much as 20% per annum (in real terms)*" should there be shortfalls in revenues (Subject to limits set out in the Scheme Orders and levels set out in the Outline Business Case).

3.2.15 Tolls/Charges on the Project have not been increased since its opening in October 2017. The results of the LF-SRP modelling indicated that there will be a shortfall between expenditure and projected income that is not covered by grant monies and therefore an increase in tolls/charges will be required during the three-year review period to ensure the financial viability of the project.

3.2.16 Emovis' Toll Change exercise identified a 20% increase in tolls as the optimal mark for the Project. Increases beyond 20% would result in a higher reduction in traffic numbers, regressive increases in revenue and eventually a reduction in both traffic numbers and revenues (at the 40% mark). In accordance with the exercise conducted, a 10% increase in tolls is expected to result in a smaller reduction in traffic numbers (2.3%). However, the revenues generated are also smaller (approx. £1m per annum). In comparison to a 10% increase in tolls, the revenues raised by a 20% toll increase allows the Project to be less reliant on the Liquidity Maintenance Reserve (LMR) to cover potential shortfalls enabling the Project to have more room for manoeuvre to react to sudden and unforeseen events (such as a surge in inflation which causes project costs to rise or an abrupt fall in revenue or traffic similar to the recent pandemic) without additional DfT grant.

Accordingly, for forecasting purposes, using data from Emovis' Toll Change Exercise it was concluded that a 20% increase in tolls in the 2025/26 FY should be recommended i.e. the standard class 2 toll rate would increase by £ 0.40 from £2.00 to £2.40.

3.2.17 The proposed increase in tolls/charges should generate sufficient revenues to allow the Project to manage any potential shortfall (worse case £8.2m) with funding from the Liquidity Maintenance Reserve (LMR) currently standing at £19m, without the need for additional grant support from the DfT beyond that which is already planned.

3.2.18 If MGCB had adhered to the FL by increasing average weighted tolls/charges annually by RPI as a minimum, the rate of increase to 2024/25 FY would be 30.8% (calculated by using a combination of actual quarterly RPI data from the Office for National Statistic and quarterly RPI forecasts published by the Office for Budget Responsibility). The proposed 20% increase in 2025/26 FY is significantly below that mark.

3.2.19 Despite traffic numbers and revenues returning to 2019 pre- COVID-19 levels, the current revenue levels are below that anticipated for the period pre- COVID19. The proposed increase in tolls/charges should ensure revenues are closer to the pre-COVID-19 forecast.

3.2.20 In summary, the approach to forecasting revenues entails forecasting traffic and monetise it. To forecast traffic, MGCB have used 2022/23 traffic data as a base, applied the NRTP-2022 traffic growth data and Emovis' Toll Change Exercise to reflect the impact on traffic numbers and revenues as proposed toll/charge increases are implemented in FY 2025/26. The proposed increase in tolls/charges should ensure the Project can manage any shortfall in its finances by utilising the LMR.

3.3 Option Testing

3.3.1 To assess the financial robustness of the Project a number of likely options were tested to demonstrate the potential impact on revenues of a change in traffic growth and assumptions. All options include the recommended toll/charge rate increase of 20%. The options tested were primarily based on the DfT NTEM/Common Analytical Scenarios.

3.3.2 The options tested (see Table 1 for traffic growth rates) were:

- Base Case (Option 1).
- High Economy (Option 2).
- Low Economy (Option 3).
- No growth in traffic in year 1 & 2 and fall in traffic in year 3 as tolls/charges increase (Option 4).
- Base growth in traffic in year 1 & 2 and larger fall in traffic in year 3 as tolls/charges increase (Option 5).
- Base growth in traffic in year 1 & 2 and capping LUDS crossings to 900 per annum (Option 6).

3.3.3 Option 1 – Core annual increase in traffic growth.

3.3.4 Option 2 - Considers a future where productivity growth returns to its long-term trend and migration remains near 2016 levels.

3.3.5 Option 3 - Captures a future where productivity growth fails to return to historic levels and migration falls to lower levels.

3.3.6 Option 4 - No growth in traffic on the Project compared to 2022/23 FY levels.

3.3.7 Option 5 – Base case growth achieved in Year 1 & 2 but a larger 15% (compared to 8.1% in Option 1) reduction in traffic number as tolls/charges are increased in Year 3.

3.3.8 Option 6 – A change made to LUDS to charge users exceeding 900 crossings per annum. LUDS users will be charged for each individual crossing they make beyond the 900 threshold in a year.

3.3.9 Conclusions from the option testing include:

- The shortfall identified under all options tested can be met by the LMR.

- In accordance with the FL (Clause (vii)), no additional deposits to the liquidity reserve are required during the LF-SRP to ensure the LMR is at least 20% of the forecast net toll/charge for the following 12 months period.

3.3.10 Across all options tested in the LF-SRP all potential shortfalls could be met by the LMR. Accordingly, it is recommended that the level of DfT grant funding (ASG and EDSG) remains as set out in Annex A to the FL.

PART 4 - EXCESS REVENUE SHARE PROCEDURE

4.1 Background

4.1.1 The Funding Letter (FL) states "*At the second Review Point and every subsequent Review Point during the life of the DBFO agreement, the Crossings Board shall calculate whether there is an Actual Excess* (AE) *by updating Table 2 of Annex B*." (Clause (xviii)) and that *"85% of any Actual Excess shall be payable by HBC or the Crossings Board to the Department*…" (Clause (xx)).

4.1.2 The issue quickly identified with updating Table 2 of Annex B is that the table only looks at certain changes and variations in relation to the overall project costs and there appears to an assumption that certain costs will remain in line with the Full Business Case (FBC) and not vary over the lifetime of the Project. Examples include the Unitary Charge and the Service Subsidy payments, where any differences between the forecast and actual expenditure would not be captured under Table 2.

4.1.3 Variations to both the Unitary Charge and the Service Subsidy payments will occur as both have indexation linked to RPIX and could be paid at a lower amount due to poor service performance.

4.1.4 The omission of certain items of expenditure and revenue from Table 2 will skew the calculation of the AE and needed addressing.

4.2 Initial Proposal for Calculation of Excess Revenue Share

4.2.1 Step One

i. To calculate for each financial year the actual project revenues based upon a cash received basis in respect of tolls/charges paid, subscription fees received, stickers sold, and Penalty Charge Notices (PCNs) paid.

ii. To calculate for each financial year the actual project expenditure incurred and allow for accruals for invoices raised that relate to the financial year but have not yet been paid.

iii. To adjust for any incurred expenditure that has been capitalised by HBC and any expenditure that may have been recovered later from Merseylink or Emovis.

iv. To reconcile revenues and expenditure to the Project bank account.

v. Once both parties (ie the DfT and MGCB) agree with the revenue and expenditure, calculate the actual sharable surplus.

4.2.2 Step Two

i. Use the forecast figures from the FL to calculate and agree the variances between forecast and actual revenue and expenditure for each heading.

4.2.3 Step Three

i. Update Table 2 of Annex B, using the figures agreed at Step 2; AEs in Table 2 should match the figure calculated in Step 1.

4.2.4 Completion of Initial Proposal

4.2.5 The conclusions from the completion of the above exercise are:

- **Step One**: Completion of step one results in the calculation of an AE figure, with a clear auditable trail, which can be agreed as accurate by both MGCB and the DfT and can be reconciled to the Project Bank Account.
- **Step** Two: The variances between forecast revenue and expenditure under the FL and the actual revenue and expenditure incurred between 14/10/2017 and 31/03/2023 can be explained to the satisfaction of the DfT.
- **Step Three**: It is apparent that too many adjustments are required to table 2 of the FL in order to produce an AE figure which matches that calculated at step one and little of the original table 2 is of value.
- The DfT have undertaken further analysis of using table 2 and the proposed method. The results highlight the limitations of the approach set out in the FL.
- It has been proposed that the calculation of the AE will be made by reference to the methodology set out in step one above (ie a direct calculation of AE). This approach ensures all relevant receipts and expenditure are captured and the AE calculated reflects the intention of the FL. Added benefits of this approach include clarity in the basis of calculation, it is more straight forward for all stakeholders to understand and is a less time-consuming undertaking (ie ensures appropriate use of resources).

4.3 Summary of Results

4.3.1 A summary of the calculations can be seen in table 4.1.

4.3.2 The monies available for sharing between the DfT and HBC at this review point (the Second Review) are £52.647m with the DfT receiving £44.750m and HBC £7.897m. It should be noted that the amount available in 2021/22 and 2022/23 are significantly lower due to £19m being transferred to the Liquidity Maintenance Reserve. The impact of COVID-19 can be seen in the revenues for 2020/21.

Table 4.1

	2017-18 (six Months)	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Revenue	£21,862	£46,783	£48,559	£32,979	£44,453	£46,360	£240,996
DfT Grant	£13,806	£26,998	£25,808	£24,702	£23,719	£22,940	£137,972
Total Project Income	**£35,667**	**£73,781**	**£74,367**	**£57,681**	**£68,172**	**£69,300**	**£378,968**
Total Project Costs	**£24,434**	**£56,422**	**£57,100**	**£53,827**	**£65,979**	**£68,560**	**£326,321**
AE Available	£11,233	£17,358	£17,267	£3,855	£2,193	£740	£52,647
DfT @85%	£9,548	£14,754	£14,677	£3,277	£1,864	£629	£44,750
HBC@15%	£1,685	£2,604	£2,590	£578	£329	£111	£7,897

PART 5 – DELIVERING BENEFITS

5.1 Background

5.1.1 This section demonstrates that the Project has delivered against the seven strategic objectives as set out by HBC and has delivered significant benefits as outlined in the Monitoring and Evaluation Plan Report (MEPR) (contents agreed with the DfT).

5.1.2 The MEPR 2020, approved by the DfT in 2022, demonstrated the achievement of HBC's strategic objectives for the Project and compliance with the targets set out in the M&E plan (with exception of the sustainable transport related objectives as the SJB had not reopened in 2020).

5.1.3 The following paragraphs summarise the original evidence presented to demonstrate achievement of the seven strategic objectives and the updated evidence to show how the sustainable transport objectives have been achieved since the SJB reopened in 2021.

5.2 Achievement of Strategic Objectives

Objective One: *To relieve the congested SJB, thereby removing the constraint on local and regional development and better provide for local transport needs*:

i. The MEPR 2020 evidenced that the constraint of congestion has now been relieved with free-flowing traffic using data from the Journey Time Mechanism System (JTMS).
ii. HBC supported by MGCB, manage demand to ensure the delivery of transport benefits by maintaining free flow traffic.
iii. MGCB is supported by Merseylink under incentivised contractual arrangements of the Project Agreement (PA).

Objective Two: *To apply minimum toll charges to both MGB and SJB consistent with the amount required to satisfy affordability constraints*:

i. As a requirement of the legislation surrounding the Mersey Gateway Project (the Project), HBC have created a charging scheme for the Project through a Road User Charging Scheme Order made under the Transport Act 2000 and the Road User Charging Schemes (Penalty Charges, Adjudications and Enforcement) (England) Regulations.

ii. Toll revenues and grant funding as set out in the Funding Letter (FL) have been sufficient to support the scheme and satisfy funding conditions without the need to increase tolls/charges or to seek additional grant support.
iii. MGCB is supported by Emovis under incentivised contractual arrangements of the Demand Management Participation Agreement (DMPA).

Objective Three: *To improve accessibility in order to maximise local development and regional economic growth opportunities*:

i. The MEPR 2020 demonstrates evidence of Local and Regional economic growth.
ii. Figures from the Land Registry show that the residential property market in HBC is also buoyant with a 7.5% growth in house prices in the year to June 2018.
iii. HBC supported by MGCB developed a toll/charge policy in particular the Local User Discount Scheme (LUDS) and other schemes (such as frequent user schemes).
iv. Liverpool John Lennon Airport has launched its Strategic Vision for 2030 setting out how it intends to take the business forward, bringing further benefits for the Liverpool City Region, the North West and North Wales.
v. Despite uncertainty in the investment market, primarily related to Brexit, companies continue to invest within the Borough. Many companies state that the improved connectivity which the Mersey Gateway Bridge (MGB) has brought, has been a major factor in determining their investment decisions.

Objective Four: *To improve local air quality and enhance the general urban environment*:

i. The MEPR 2020 presents an in-depth analysis of environmental mitigation measures including reports on Air quality, Noise and Carbon demonstrating how these had improved since the opening of the MGB.
ii. HBC supported by MGCB manage demand to ensure the delivery of environment benefits, by maintaining free flow traffic conditions.

Objective Five: *To improve public transport links across the river*:

i. The opening of the reconfigured Silver Jubilee Bridge (SJB) (includes a cycle lane) and implementation of the Sustainable Transport Strategy (STS).

ii. Following the opening of the SJB in 2021 this objective has been achieved.

Objective Six: *To encourage the increased use of cycling and walking*:

i. The opening of the reconfigured SJB (includes a cycle lane), delinking improvements and implementation of the STS.
ii. Following the opening of the SJB in 2021 this objective has been achieved.

Objective Seven: *To restore effective network resilience for road transport across the river Mersey*:

i. The MEPR 2020 evidenced that network resilience has now been restored with improved capacity (6 lane crossing compared to the previous 4 sub-standard lanes on the SJB) with free-flowing traffic using data from the Journey Time Mechanism System (JTMS), average speed and toll/charge monitoring systems.
ii. HBC supported by MGCB manage demand to ensure the delivery of transport benefits by maintaining free flow traffic.
iii. MGCB is supported by Merseylink under incentivised contractual arrangements of the PA.

PART 6 – COMMUNICATIONS STRATEGY

6.1 Outcomes

6.1.1 The intended outcomes from a co-ordinated approach to an agreed communications strategy are:

- A clear plan for communicating the process and outcomes of the review undertaken at the second Review Point (SRP).
- Joined up messaging and approach between MGCB, Halton Borough Council (HBC) and the DfT.
- Understanding and acceptance from the local community and stakeholders of the position.

6.2 Approach

6.2.1 The delivery of the intended outcomes will be achieved by:

- Establishing and sharing a clear position as to what has already been said in the public domain to ensure consistency with historic and current/future positions.
- Development and issue of a news release explaining the review/settlement (once a position is agreed) and what is happening to the 'excess funds' based around the key messages and FAQs. This should clearly identify the nature of the AE (as defined in the FL) and how it will be used, particularly in the context of a proposed increase in tolls/charges (in the 2025/26 Financial Year). The release will be issued locally; The DfT will determine whether to issue a communication at a national level. If this is required, the timing will be coordinated.
- Publishing the news release on the 'news' section of the Mersey Gateway website and including simple updated and accurate content on the Funding page.
- Development of an accompanying briefing note for circulation amongst the MGCB/HBC/DfT teams to ensure understanding and consistency of approach.
- Ensuring stakeholders are given suitably timed briefings to ensure the context of the announcement is understood before it is released more widely.

PART 7 – LESSONS LEARNT

7.1 On completion of a project, it is important to assess what went well and what actions could be taken to improve outcomes, efficiencies etc for all stakeholders. Important lessons learnt relating to the second Review Point (SRP) are summarised below:

7.1.1 Stakeholder communication is key. In particular MGCB and the DfT worked closely together in an open and collaborative manner thus ensuring all parties were clear as to the nature of outputs required and the means of achieving them. This resulted in efficient and effective use of resources for all stakeholders.

7.1.2 Look back information should be (and now will be) collated annually following each year end rather than collating all the information at each review point (ie every three years). This should ensure the triennial review is completed more efficiently and possible issues can be highlighted earlier.

7.1.3 A number of reports relating to the Project are required by various arms of government. It is more efficient for the timing of interrelated reports to be coordinated. Accordingly, the Five-Year Plan will be aligned to the triennial review such that a detailed refresh of the 5YP will be undertaken at the same time as the triannual three year look forward (ie it will be an extension of the triennial three year look forward), with a light touch approach taken in the intervening years. Synchronising the Monitoring and Evaluation Plan Report (MEPR) is also to be considered (see below).

7.1.4 Value for Money (VFM) is to be considered at each review point. The achievement of the Project’s seven strategic objectives has proved to be the most relevant measure of VFM and accordingly achievement of the objectives (or otherwise) will be the basis for ensuring VFM going forward. Achievement of the strategic objectives is currently captured in the MEPR as submitted to the DfT; the reporting should be synchronised with the cycle of reviews (ie triannual reporting).

7.1.5 Matters relating to the tolling/charging of a crossing can be sensitive and accordingly an agreed communications plan is key to clear, open and consistent messaging. The DfT, HBC and MGCB’s agreed communications plan supports this approach.

Glossary of Terms

5YP	Five Year Plan (see Funding Letter)
AE	Actual Excess (see Funding Letter)
ASG	Availability Support Grant
DfT	Department for Transport
DMPA	Demand Management Participation Agreement
EDSG	Extended Discount Scheme Grant
FBC	Full Business Case
FL	Funding Letter (dated 24 February 2016)
FRP	First Review Point (being October 2016)
FUDS	Frequent User Discount Scheme
FY	Financial Year (1st April to 31st March)
GTR	Gross Theoretical Revenue (GTRx + GTRd)
GTRd	Gross Theoretical Revenue: received from subscriptions of any Local User Discount Scheme (LUDS) and Frequent User Discount Scheme (FUDS).
GTRx	The theoretical toll revenue (aggregate of number of trips by vehicle class x toll (which reflects any discounts))
HBC	Halton Borough Council
JTMS	Journey Time Mechanism System
LF-SRP	"Look Forward" second Review Period (from April 2023 to March 2026)
LUDS	Local User Discount Scheme
MEPR	Monitoring and Evaluation Plan Report
MGB	Mersey Gateway Bridge
MGCB	Mersey Gateway Crossings Board Limited
MGET	Mersey Gateway Environmental Trust
NRTP-2022	National Road Traffic Projections- 2022
NTEM	National Trip End Model
PA	Project Agreement
PCN	Penalty Charge Notice
SJB	Silver Jubilee Bridge
SRP	Second Review Point (being March 2023)
the Project	Mersey Gateway Project
VFM	Value for Money