Memorandum

in Connection with

The Application to increase the Tolls

On

Whitchurch Bridge

Prepared by the following four residents of Whitchurch-on-Thames who oppose the application to increase tolls

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1 Conclusions

1 An increase of tolls to 60p for motor cars resulting in a 600% rise over the last 10 years ***is grossly inappropriate and unfair to current bridge users.*** *(Section 3 Table 1)*

2 The Company should guarantee that the discount for frequent users should be ***at all times*** *as they agreed to do in the Previous Application. Furthermore, in the light of the reduction of the discount rate in recent years, it should consider* ***increasing the discount to former levels.***
(Section 4 Table 2)

3 The Company should not seek to pay such high dividends and indeed should seek to ***suspend dividend payments*** *until after the loans, which have been raised to build the new bridge, are repaid.*
(Sections 5 and 6 Table 3)

4 The Company should ***not budget to repay all the loans over a 15 year*** *period. It is almost certain these loans would be capable of extension in the years ahead. (Section 7)*

5 ***More convincing budgets and cash flows*** *should be prepared to show the effect of differing rates of tolls on the profit and loss account and cash position over the next ten years. (Section 7)*

2 Introduction

This Memorandum has been prepared by four residents of Whitchurch-on-Thames (" the Residents") all retired professional people, three of whom have lived in the village most of their lives. They are all concerned that The Company of Proprietors of Whitchurch Bridge (" the Company") has submitted an Application to the Secretary of State for Transport to increase the Tolls at Whitchurch Bridge in accordance with The Transport Charges Etc (Miscellaneous Provisions) Act 1954 and Whitchurch Bridge Acts 1992 and 1988.

In preparing this Memorandum the Residents have referred to the following documents:-

The application by the Company referred to above ("the Pending Application")

The three acts referred to above

The statutory accounts of the Company for the ten years to 30th June 2014

The application made by the company to increase the toll charges in 2009 (" the previous application") with associated papers.

3 The Toll Charges

The toll charges were last increased in 2009 and prior to that in 2004. The rate of tolls is indicated in the table below:-

Table 1

	Class I toll (Cars)	Class 2 toll (lorries)
	pence	pence
1993	8	
1998	10	
2005	20	200
Post 2009 charge	40	300
Proposed charge in 2015	60	400

It can be clearly noted that the proposed increase to 60 pence represents in the class 1 toll an increase ***of 600%*** *over the ten years since 2004.* ***It is incomprehensible that such an increase would have been acceptable or permissible in any public utility company***

4 The Discount for Frequent Users

It has been the policy for the Company to give discounts to frequent users. These discounts can be obtained by any user who pays a lump in advance and whom is then issued with a card which can be used to raise the barrier without the need to trouble the toll collector. This system is fully explained in the Pending Application and is beneficial to the Company as it reduces the cost of manning the toll booth.

It is understood that originally, when the first bridge was built in 1792, the discount was given to the local inhabitants of Whitchurch and Pangbourne and other surrounding areas and this local discount was continued until 2005. Since then the discount has been given to any user who is prepared to pay in advance, wherever they live. Apparently no census has ever been carried out (or if it has it has not been published) as to where the current discount users live and so how many of them would not be classified as local.

The level of discount given in the last ten years for class 1 users (the majority of users) can be illustrated in the following table:-

Table 2

	Amount of full toll	**Amount of toll after Discount**	**Percentage discount**
	pence	pence	%
Pre 2004	10	7	30
Between 2004 and 2009	20	9	55
Post 2009 to 2013	40	20	50
2013 to date	40	29.4	26.5
Proposed in 2015	60	45	25

It will be noted that since 2005 the level of discount given to frequent users has decreased by ***over 100%.***

Accompanying the previous application was a witness statement by Michael Beckley, the Chairman of the Committee of Management of the Company in which he stated "we understand that bridge users require a degree of confidence that they will not have to face excessive increases if assumptions change and we as a Company are prepared to undertake that if the proposed cash toll of 40 pence is approved then we will maintain a discount of at least 50% for the period to 2012 and that ***at all times*** *we will maintain a discount for regular users of at least 25%". This statement is confirmed in the previous application in paragraph 2.l*

In paragraph 3.8 of the Pending Application it states that "The discounted tolls are not regulated but the Company is willing to give an undertaking that the discounted toll for both class 1 and class 2 users will not exceed 75% of the regulated toll ***within the next 5 years*** *assuming this toll application is approved". This latter statement seems to conflict with the statement made at the time of the previous application.*

As has been made clear in the Pending Application that it is clearly in the interests of the Company to offer a discount but it is believed that whether or not approval is given for the increase in tolls it should be made mandatory for a minimum discount to be applied ***at all times****.*

5 The profitability of the Company

The following table shows details of the profits made and the distribution of those profits over the past 10 years:-

Table 3

Year ended 30th June	*Turnover*	*Operating profit/(loss)*	*Profit after investment income*	*Dividends paid*
	£000	£000	£000	£000
2005	204	74	160	30
2006	246	51	164	30
2007	267	63	176	42
2008	266	(31)	55	49
2009	279	3	69	28
2010	366	87	170	51
2011	456	131	223	26
2012	445	232	346	40
2013	451	195	428	14
2014	120	(24)	100	-

In the pending application the Company has demonstrated that traffic over the bridge has been deteriorating and yet, apart from 2014 when the bridge was closed for 9 months there are only two years, 2008 and 2012, which show a small reduction in turnover.

The dividends are paid, through intermediate companies, to the parent company, Whitchurch Bridge Holdings Limited ("the Holding Company")which then pays dividends to the individual shareholders. The accounts of the Holding company have not been examined so the dividends paid by that company are not known but nevertheless the dividends paid by the Company are wholly available to the ultimate shareholders subject to a few minor expenses.

During this 10 year period it should have been quite clear to the Company that the rebuilding of the bridge was imminent, in fact they had been told that it needed to be replaced by 2015 at the latest. The Company has been obliged to estimate the cost of rebuilding the bridge and in latter years show that cost as a Capital Commitment in the statutory accounts each year. The following table shows the figures disclosed:-

Table 4

At 30th June	***Estimated cost of replacement Before VAT***	***Value of Investments held shown in the balance sheet***
	£million	*£million*
2005	*2.89*	*1.03*
2006	*2.98*	*1.19*
2007	*3.29*	*1.30*
2008	*3.54*	*1.43*
2009	*3.59*	*1.50*
2010	*3.69*	*1.72*
2011	*3.98*	*1.81*
2012	*4.02*	*2.30*
2013	*4.02*	*2.30*
2014	*6.41 inclusive of VAT*	*nil*

It seems quite obvious that throughout this ten year period it was known that the investments (which are effectively the "reserve fund") built up by the Company were not sufficient to meet the cost of replacing the bridge, albeit that the ultimate cost of the replacement was greater than could have been expected as a result of various factors set out in paragraph 4.10 of the pending application. ***And yet the Company continued to pay dividends in every year except 2014***

6 Dividends

Section 4 of the Whitchurch Bridge Act 1988 sets out the order in which the income of the Company is to be expended. This is repeated in paragraph 2.2 of the pending application. It states that only after paying all expenses any balance remaining may be applied by the company in payment of dividends to its shareholders. Before that it has to set apart contributions to a reserve fund. As mentioned in the previous paragraph it is difficult to understand why, during the last ten years, all available funds were not set aside into the Reserve fund when it must have been quite clear throughout this period that it was insufficient to meet the cost of replacing the bridge.

The directors of the Company (defined in the 1792 Act as "the Committee") seem to place great emphasis on their obligation to pay a dividend to shareholders. This is understandable but there are occasions when dividends have to be to be suspended. For example BP suspended payment of dividends following the Gulf of Mexico oil spill when the liabilities arising out of that event were unclear. And there are many other examples of dividends not being paid. In paragraph 2.4 of the pending application it states that a return of 6-10% on the value of assets is received by similarly regulated industries but no examples of this are quoted. This seems a high rate of return when measured against dividend yields of publicly quoted utility companies.

It is also noted that the Company has raised £500,000 in new loan stock from shareholders to meet part of the cost of rebuilding the bridge and this is attracting interest of £29,205 per annum. This represents a return of about 6% which seems relatively generous in these times of low interest rates.

7 Proposed Toll Charges

Section 5 of the Pending Application sets out the reasons for the proposed increase in toll charges together with various financial analyses and the assumptions made in arriving at the analyses. It has been difficult to decipher some of the figures set out in this section. In paragraph 5.5.5 there is a table which shows the average annual cost of running the Company over 8 years. It shows the average cost of operating costs to be £200,000 and yet in Appendix 2, showing the budget, cash flow and balance sheet forecast for 10 years, the cost of sales and administration expenses, which together are, presumably, the operating costs, are a much greater figure than £200,000 in each of the next 8 years. Similarly the loan interest payable is shown in the table as £160,000 and yet in Appendix 2 it is shown as a much lesser figure.

In paragraph 5.2 of the Pending application it refers to an Appendix 5 showing a detailed cash flow over the next 5 years showing the income and expenditure expected at both the current and proposed levels of tolls. It would have been interesting to see these figures but Appendix 5 seems to have been omitted from the Pending Application.

Following section 5.6 of the Pending Application are 3 options set out in tables plotting the Target Replacement Fund against the Investments at Market Value. It is not clear what the criteria is for setting aside the monies for the replacement fund and these tables are therefore difficult to interpret.

The table in Appendix 2 purporting to show the Budget, Cash Flow and Balance Sheet Forecast 10 years 2014-2023, assuming a toll increase to 60p, is more helpful although it does not, in fact show the cash flow. It demonstrates that shareholders funds will have increased from £3.3 million at 30th June 2014 to £7.0 million by 30th June 2023. This is *after making loan repayments but before setting aside any monies for the Bridge Replacement Fund. In the Accounts of the Company it states that "The Bridge is classified as specialised property and is re-valued annually on the basis of depreciated replacement cost". It is very difficult to estimate what the depreciated replacement cost will be in ten years time, indeed it is difficult to estimate what it would be today because the cost of the replacing the bridge was exacerbated by the factors set out in the Pending Application. Simply by way of an example if the cost of replacement in 2023 was to be £9 million then the reserve fund that should have been built up by that date should be £0.9million being 10% as 10 years would have expired out of the estimated 100 years to replacement. Taking the £0.9 million from the shareholders reserves of £7.0 million at 30th June 2023 means that the funds attributable to shareholders of the Company would be £6 million and will still have almost doubled in those ten years.*

This demonstrates that by increasing the class 1 toll fee to 60 pence it is ***the current bridge users who are effectively financing the Company to repay the loans*** *that it should not have needed, if sufficient monies had been invested in the Reserve Fund over the life of the old bridge in the first place.*

It is suggested that in order to relieve the bridge users of meeting all of the cost of the rebuilding of the bridge in the short term the Committee should consider budgeting for an extension of the loans, which should be possible as well as delaying the payment of dividends until the loans are repaid.