Report of the Chief Executive

Agenda Item No:
Meeting: 21 February 2012

# NORTH LINCOLNSHIRE COUNCIL

## COUNCIL

## HUMBER BRIDGE: FUTURE ARRANGEMENTS

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 The Humber Bridge tolls are recognised as a barrier to economic growth in the region. The government has reviewed the future operation and financing of the bridge and has offered to write off £150m of the £332m outstanding debt relating to the bridge. This will allow the tolls to be reduced by 50%, to £1.50 for cars, and so presents the region with a unique opportunity to take initiatives to resolve this position.

1.2 In accepting this offer the Government requires the councils in the area to underwrite the bridge's debt and running costs and to revise the governance arrangements for the bridge. Traffic and financial modelling suggests that it is unlikely that deficits will arise and so there should be no costs falling to the council, although a degree of risk remains. This report gives further details of this proposal, and asks for council approval to formally approve the future governance and financial arrangements.

2. **BACKGROUND INFORMATION**

2.1 The Government has concluded its review of the future financing and operation of the bridge. The Bridge currently carries a debt of £332m, resulting from the cost of building the bridge and rolled-up debt. The Bridge Board is currently making repayments on part of the debt at an interest rate set by government.

2.2 As a result of this review, the government proposes to offer a £150m write-down of the Humber Bridge debt from £332m to £182m conditional on reforms to the governance of the Bridge and reforms to the debt burden of the Bridge.

2.3 It should be noted that the Humber Bridge currently operates with 22 councillor representatives drawn from Hull (12), East Riding (4), North Lincolnshire (5) and Lincolnshire (1) councils. Any deficiency in revenues would be made good by precepts on Hull City Council (98%), the remainder being met by North Lincolnshire and East Riding through index linked cash sums.

## 3. OPTIONS FOR CONSIDERATION

3.1 The £150m write-down of debt would allow the toll for cars to be reduced from £3.00 to £1.50 by 1 April 2012. This offer is conditional upon the Bridge Board and the local authorities agreeing to:

(a) Radical reform of the Bridge Board to bring in new expertise and give it sharper commercial focus, so that costs are controlled and opportunities to bring in new revenue are seized.

(b) The Humber area local authorities taking on full responsibility for the remaining lower level of debt, and sharing it out more broadly and realistically between them.

3.2 **Reforming the Board** is seen as a two-stage process, the first to be initiated straight away using existing powers to reduce the number of councillors on the Board to four (one for each council underwriting the deficit), with representatives of the LEP and local business added to the Board (initially non-voting). The second stage would see full Board membership and voting rights for the private sector representatives.

3.3 **Financial issues.** The Government has clarified that the Bridge debt will remain with the Bridge Board. The four Humber councils will be each responsible for underwriting 25% of any deficit incurred in the operation of the Bridge once all Bridge Board reserves have been exhausted. The possible financial position of the Bridge after the debt write-down and reduction in tolls has been modelled. This shows that the Bridge debt can be paid off without recourse to subsidy from the four councils. This is conditional on the maximum interest rate being capped at 4.25% and the Department for Transport providing an extension to the loan if required. It should be noted that this financial model is based on a set of assumptions, some of which could turn out to be more accurate than others, and therefore a degree of financial risk will remain with this council. Further details of the financial position are set out below.

3.4 **Commercial focus and cost control.** The strategic plans of the Board and the four authorities will be aligned to promote economic regeneration. An agreement will be put in place to ensure that the financial oversight of the Bridge Board is robust.

3.5 Representatives of Hull, the East Riding, North East Lincolnshire and this council have agreed the broad outline of the proposal. Each council is in the process of formalising this position. A decision is needed in February to enable the necessary procedural issues to be resolved in March to allow the tolls to be reduced with effect from 1 April 2012.

## 4. ANALYSIS OF OPTIONS

4.1 The proposal made by Government represents a one-off opportunity to provide a boost to the economic regeneration of the region by lowering Bridge tolls for all classes of vehicle. The government recognises the need for this, and indeed has made clear that the course of action they propose will bring economic benefits not just to the region but to the country as a whole. It will provide valuable support not only to existing business and social activity in the region, but also to the new developments planned in the region both north and south of the Humber in the Enterprise Zone and elsewhere.

4.2 The proposed governance arrangements will streamline the existing operation of the Bridge Board. The equal shares of any financial liabilities born by each council mean that each has equal representation on the Board, and therefore the North and South banks of the Humber will have equal representation. The addition of business representatives should bring commercial expertise to bear on the Bridge Board’s operations, not only through the realisation of potential efficiencies in its operation but also in the development of commercial and tourism income streams relating to the Bridge and its environs.

4.3 In financial terms, authorities will be underwriting the overall deficit of the Bridge in equal shares. It has operated since opening without any recourse to local authority financial support and there is every prospect of it continuing to do so. This position would be underpinned by government agreement to cap the interest rate at a maximum of 4.25% and to extend the loan repayment period if required.

4.4 It must be recognised that the proposal does bring increased financial risk to the council. However these need to be considered in the context of the economic opportunities for the region it presents at the current time, which would be lost if the government’s offer is not accepted by this council and the three other local councils. It is considered that the risks of not accepting the government’s offer outweigh the risks of accepting it, so acceptance is recommended subject to clarification on the issues regarding the debt noted above.

## 5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 Financial issues and risks are key to this proposal. In 2011/12 the Humber Bridge Board budgeted for £22.1m of toll income, operating expenditure of £4.2m, interest costs of £14.6m and a transfer to maintenance funds of £3.5m, a deficit of £0.2m which is met from general reserves. Key financial risks are variations in toll income and the future maintenance needs of the bridge and their costs. The Board currently sets aside significant sums in most years into a maintenance reserve to meet the latter. It also carries a general reserve to deal with unforeseen costs.

5.2 Legislation sets out that the Bridge Board must apply the revenues it receives in a certain order. First, maintenance, working and establishment expenses must be met; second, interest must be repaid; third, once all interest is met, the revenues must be used to repay debt. But this does mean that the Board has flexibility to repay debt as and when it can afford, this freedom is crucial to modelling how the government's write-down of debt can be afforded without a deficit being incurred.

5.3 The Bridge Board has produced a financial model to demonstrate that a deficit is unlikely to arise. It is still subject to 'fine tuning', but is not expected to change significantly overall. The toll decrease will bring an increase in traffic, which is phased in over several years. This builds some resilience into the model. Some years require the use of general reserves to avoid a deficit, while maintaining them at adequate levels. Contributions to the maintenance reserve continue to be made consistent with need and affordability. Inflation is applied to costs and income as appropriate.

5.4 On this basis the model shows no years where there is a deficit. The achievement of the position forecast by the model is dependant on the government confirming that the interest rate paid will be the current 4.25% or less; and on agreement by government to extend the repayment term. Other flexibilities exist within the model to avoid a deficit. 'Due diligence' work will continue as the model is finalised.

5.5 A further significant financial risk is represented by catastrophic failure or damage to the bridge, and its subsequent rebuilding. The government has stated that it would cover such risks and does not expect these to be met by the local authorities.

5.6 On the basis of the financial model produced by the Bridge Board, assurance can be taken that the chance of any such deficit falling to be shared by the four councils is low. However, the possibility of the council having to contribute to a Bridge deficit cannot be totally ruled out.

## 6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

6.1 The main financial risks are discussed above. However these must be balanced against the risk involved in not taking action to support the local economy through a significant reduction in bridge tolls. It should be remembered that the Buchanan report recently assessed the economic impact in the region of a reduction in the toll from £2.70 to £1 as £580m between 2009 and 2032.

6.2 It should also be noted that the River Humber is an environmentally sensitive site with RAMSAR status.

7. **OUTCOMES OF CONSULTATION**

7.1 Detailed consultation has taken place with the other councils involved to reach a position where each has indicated it will support the proposals made by government, subject to clarification of certain details.

8. **RECOMMENDATIONS**

8.1 It is recommended that:

(a) the acceptance of the government's offer to write down the Humber Bridge debt by £150m be confirmed, subject to clarification of certain details including interest rate and debt repayment period.

(b) the revised governance arrangements for the Bridge Board be approved.

(c) the council agrees to underwrite 25% of any revenue deficit incurred by the Bridge Board on the terms identified.

CHIEF EXECUTIVE

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**Background Papers used in the preparation of this report: exempt**