

Mersey Tunnels Tolls 2014/15
(DIT/10/14)

Report of the Director of Integrated Transport Services

1. **Introduction**

- 1.1 The Integrated Transport Authority ("the Authority") is responsible for determining the level of tolls ("the tolls") payable for use of the Mersey Tunnels ("the Tunnels").
- 1.2 This report is intended to assist the Authority at its 6 February 2014 meeting by:
- (a) outlining the legal procedure for revising the level of the tolls;
 - (b) summarising how the current level of tolls was arrived at; and
 - (c) making proposals for the level of tolls payable in 2014/15.

2. **The Procedure for Revising Tolls**

- 2.1 The County of Merseyside Act 1980 ("the 1980 Act"), as amended by the Mersey Tunnels Act 2004 ("the 2004 Act"), sets out the procedure for revising the tolls. Under Section 91(7) of the 1980 Act, the Authority must make an Order in February of each year ("a Section 91 Order") fixing the amount of tolls payable by each class of vehicle from the following April. There are four prescribed classes of vehicles, each with subcategories, as follows:

Class	Subcategories
1.	(a) Motor cycle with side car and 3 wheeled vehicle.
	(b) Motor car and goods vehicle up to 3.5 tonnes gross weight.
	(c) Passenger vehicle other than a motor car with seating capacity for under 9 persons.
2.	(a) Motor car and goods vehicle up to 3.5 tonnes gross weight, with trailer.
	(b) Goods vehicle over 3.5 tonnes gross weight, with two axles.
	(c) Passenger vehicle with seating capacity for 9 or more persons, with two axles.

Class	Subcategories
3.	(a) Goods vehicle over 3.5 tonnes gross weight, with three axles.
	(b) Passenger vehicle with seating capacity for 9 or more persons, with three axles.
4.	Goods vehicle over 3.5 tonnes gross weight, with 4 or more axles.

2.2 The overriding presumption in the Act (as amended) is that tolls rise in line with inflation, so preserving their value in real terms. The increase in the tolls authorised by the Act (the "authorised tolls") is calculated by:

- (a) taking the "base" toll amounts set out in Section 91(6) of the Act for each class;
- (b) increasing them by the same percentage increase as the rise in the Retail Prices Index ("RPI") from November 1999 ("the base month") to the November immediately preceding the making of the Section 91 Order; and then
- (c) rounding the new value up or down to the nearest ten pence.

2.3 But by virtue of Section 92C of the 1980 Act the Authority has discretion to reduce the amount of the authorised tolls payable by any particular class of traffic. In other words the Authority, at its discretion, can from time to time set the tolls payable (the "actual tolls") below the amount that they have increased to in line with inflation. However, it should be stressed that exercising this discretion should be under exceptional circumstances of an economic or social nature.

2.4 Every time it makes a Section 91 Order (in February of each year) the Authority must consider whether to exercise the Section 92C general discretion to charge sub-inflationary tolls. However the circumstances in which it may allow (or continue to allow) a reduction in tolls set by a Section 91 Order are limited. It must be "necessary or appropriate" having regard to matters of an economic or social nature in the County of Merseyside that the Authority considers to be relevant.

- 2.5 When making decisions on the amount of tolls to be levied, it is very important that the Authority keeps in mind the scheme and purpose of the legislation, founded upon the case made by the Authority and accepted by Parliament, as to why the changes brought in by the 2004 Act were needed. The default position is that tolls must rise in line with inflation which is important for three reasons:
- (a) the relative costs of using the Mersey Tunnels must keep pace with other transport alternatives. This is important for demand management reasons. If the tolls do not keep pace with other transport alternatives, the Mersey Tunnels will become progressively cheaper, encouraging increased use and thus increased congestion, thereby compromising the benefit the Mersey Tunnels provide for their users;
 - (b) it ensures that sufficient funds are recouped to cover the costs of operating and maintaining the Mersey Tunnels; and
 - (c) it ensures that the Authority continues to receive a valuable surplus from the tolls which is then invested into public transport alternatives across Merseyside.
- 2.6 It should be stressed that this process of increasing the “authorised tolls” in line with inflation does not provide for the tolls to become more expensive in real terms. It simply provides a way to ensure that the effective cost of using the Mersey Tunnels stays the same in line with inflation.
- 2.7 Although the Authority must consider applying toll discounts when making a Section 91 Order, it should only apply them where it is “necessary and appropriate” having regard to matters of an economic or social nature. In effect this means that the Authority must carry out a balancing exercise, between on the one hand the need for tolls to keep pace with inflation and on the other hand a social or economic need to reduce, in real terms, the costs of using the Mersey Tunnels.
- 2.8 It would be wrong for the Authority to assume, based on its past practice surrounding Section 91 Orders that it must automatically continue to apply some form of discount. The Authority is not bound by its previous decisions; it must make an independent assessment of the position in February of each year.

3. **Authorised Tolls – 2014/15**

The RPI in November 2013 dictates the following levels of “authorised tolls” for the Mersey Tunnels from 1 April 2014:

Vehicle Class	1 April 2013 Authorised Toll (RPI Linked Rates)	1 April 2014 (RPI Linked Rates)
1	£1.80	£1.80
2	£3.50	£3.60
3	£5.30	£5.40
4	£7.10	£7.30

4. **Actual Tolls – 2014/15**

4.1 As outlined above, the Authority must now consider whether to exercise its discretion under Section 92C of the 1980 Act to reduce the amount of these “authorised tolls” payable for each class of traffic.

4.2 The following table shows the tolls payable over the past five years and compares the amount of toll that could have been levied (ie the “authorised toll”, being that reflecting the rise in inflation) against the “actual” tolls.

Class	Toll	Apr '09	Apr '10	Apr '11	Apr '12	Apr '13
1	Authorised	£1.60	£1.60	£1.60	£1.70	£1.80
	Actual Cash	£1.40	£1.40	£1.50	£1.50	£1.60
	Fast Tag	£1.25	£1.25	£1.30	£1.30	£1.30
2	Authorised	£3.10	£3.10	£3.30	£3.40	£3.50
	Actual Cash	£2.80	£2.80	£3.00	£3.00	£3.20
	Fast Tag	£2.50	£2.50	£2.60	£2.60	£2.60
3	Authorised	£4.70	£4.70	£4.90	£5.20	£5.30
	Actual Cash	£4.20	£4.20	£4.50	£4.50	£4.80
	Fast Tag	£3.75	£3.75	£3.90	£3.90	£3.90
4	Authorised	£6.20	£6.20	£6.50	£6.90	£7.10
	Actual Cash	£5.60	£5.60	£6.00	£6.00	£6.40
	Fast Tag	£5.00	£5.00	£5.20	£5.20	£5.20

4.3 It can be seen that in making its Section 91 Orders since 2009, the Authority has each year considered it necessary and appropriate, on economic and social grounds, to exercise its discretion to charge sub-inflationary tolls by applying discounts to the authorised tolls payable across all classes of traffic.

4.4 The net result of the decision to apply these discretionary discounts has resulted in the difference between the authorised toll levels and the actual toll levels increasing and if actual tolls are not increased in April 2014 then the following difference will apply in each class: -

Class 1	20p difference
Class 2	40p difference
Class 3	60p difference
Class 4	90p difference

4.5 It should be noted that if the Authority decides to proceed with the above discount levels and not increase the actual toll to the authorised toll level in April 2014, then it will lose the opportunity to generate an additional £5.3m - 14% of income. Including additional discounts provided by the Fast Tag, this reduces potential income by £8.6million.

5. **Economic Review 2013**

5.1 In previous years the Authority, as part of its deliberations on whether to discount the authorised tolls, has taken into consideration the annual Merseyside Economic Review produced by the Mersey Partnership.

5.2 The last produced Economic Review in 2012 indicated economic performance for the Merseyside region remained broadly in line with previous years' performance. An update of this statistical data for 2013 showed that:

(a) Gross Value Added (GVA) is the government-recognised measure of economic output. Despite a strong period of growth, GVA per capita is still well below that of the UK average. The Liverpool City Region is ranked 32nd out of 37 similar areas¹ across the UK.

(b) Liverpool City Region's employment rate continues to be below the national average, 66.5% compared with a national average of 71.0%. The region has a higher than national average number of public sector employees and the 2012 review highlighted the further risks that public sector cuts could bring to the employment rate unless significant private sector growth occurred.

¹ 32nd out of the 37 NUTS 2 geographical areas – a standard division by National Statistics of the entire UK into separate units. Inner London is ranked 1st, with Cornwall & Isles of Scilly being ranked 37th. For comparison, Greater Manchester is ranked 17th.

- (c) Private sector employment in the region is estimated to have grown by 2.4% in the previous 12 months - higher than national growth rates of 2.0% but still with a significant gap to close in rebalancing the economy². Growth was led by increased employment in Admin & Support Services (up by 17.9%), Transport & Storage (up by 4.4%) and Wholesale & Retail (up by 3.7%).
- (d) The population within the Liverpool City Region grew by 0.3% over the last 12 months. However the working age population has decreased by 0.4% - though the population of Liverpool itself was boosted by an influx of students in the 18-24 age range. The 2012 review highlighted a particular problem for the Liverpool City Region in retaining graduates from our local universities and in turn maximising the benefit for the local economy.

6. Other Transport Cost Comparisons

6.1 In determining toll levels for 2014/15, Members should be aware of the comparative cost of other modes of transport used to cross the River Mersey. Detailed in the table below is a range of comparative costs for rail bus and ferry commuter fares, as well as tunnel tolls since 2009: -

Year	Rail	Bus	Ferry Commuter	Tunnel Toll
2009/10	£2.40	£2.48	£1.50	£1.40
2010/11	£2.40	£2.58	£1.55	£1.40
2011/12	£2.50	£2.63	£1.60	£1.50
2012/13	£2.60	£2.85	£2.10	£1.50
2013/14	£2.65	£2.95	£2.20	£1.60
Total % increase	10.4%	18.9%	46%	14.3%

- 6.2 It should be noted that the bus and rail fares quoted above are based on actual cross river fares. For bus, this is an average of multi operator charges.
- 6.3 It should also be noted that the Tunnel Toll level detailed is the full actual class 1 cash toll, not the discounted Fast Tag toll.
- 6.4 The fares quoted for Ferry, Bus and Rail are charged per person in all cases. The Tunnel toll charge is the cost per vehicle, regardless of the number of occupants.

² The Liverpool City Region has 25% of employees in the public sector against 20% nationally.

6.5 Finally, it should be noted that the cost of Tunnel tolls are just one element of costs associated with use of a vehicle. Other costs such as fuel, insurance and car parking also influence a person's choice to travel via car, all of which have increased ahead of or in line with inflation in recent years.

7. **Conclusions for 2013/14**

- 7.1 From a legal perspective it should be remembered that there is an overriding presumption in the legislation that the tolls will increase each year in line with inflation. Exercising the discounting power under Section 92C(2)-(3) is conditional upon discounts being "necessary" or "appropriate" in light of the evidence.
- 7.2 Considering these factors, it is clear that since the introduction of the 2004 Act, the Authority has not only offered discounts on the actual toll but has actually increased these discounts over time on both the cash and fast tag toll levels. In broad terms, this is against the spirit of the 2004 Act which was primarily aimed at ensuring actual Tunnel tolls remained broadly in line with the rate of inflation.
- 7.3 The Authority does need to consider the level of those discounts. RPI rates during 2013 have resulted in the Authorised toll levels remaining the same for Class 1 vehicles and increasing for all other vehicle, Classes (2, 3 and 4).
- 7.4 In considering the future toll levels, Members will wish to note that level of traffic through the Mersey Tunnels has gradually increased in the financial year to date, across Class 1 and Class 4 vehicles in particular, indicating a more positive local economy. Current indications are that traffic levels will have increased by 1.5% at year-end compared with 2012/13.
- 7.5 Members should also note that whilst the Mersey Tunnel tolls levels have been discounted below inflation since the amendment to the Act in 2004, the table in section 6.1 highlights that comparative rail, bus and ferry cross river services have all increased at higher rates than Tunnel tolls.

8. **Financial Implications**

- 8.1 Any increase in toll fees of 10p for Class 1 vehicles and multiples thereof for other Classes, generates an additional income of approximately £2.4m per annum of tunnel toll revenues based on historic traffic trends.

- 8.2 If the toll proposals outlined in section 11 of the recommendations are adopted, then it will result in an additional £2.4m per annum tunnel toll revenues.
- 8.3 Tunnel toll revenues are applied in accordance with the provisions of the County of Merseyside Act (1980) and the Tunnels Act (2004). Specifically, tunnel toll revenues support the operation and maintenance of the tunnels, including capital investment and support the repayment of historic Tunnels debt.
- 8.4 Any surplus revenues are used to support strategic transport priorities within Merseyside in accordance with the legislation.

9. **Equality Impact Assessment**

It will be noted that there are no significant implications at this high level stage, though it will be essential that Equality Impact Assessments of all subsequent, detailed financial proposals are undertaken.

10. **Risk Implications**

- 10.1 There are significant reputational and financial risks associated with this report. From a financial perspective, a decision not to increase the “actual tolls” in line with the recommendation in section 11 will result in a potential loss of estimated revenue of £2.4m for the Authority.
- 10.2 However, any decision to increase tolls is likely to result in adverse publicity and the relevant risks this brings. To mitigate this risk, pro-active communications could be considered.

11. **Recommendations**

Balancing the different factors associated with this decision, the Authority is recommended to:

- (a) note the contents of this report;

- (b) authorise the making of a legal order by the Authority setting the following levels of “authorised tolls” for the Mersey Tunnels from 1 April 2014:

Vehicle Class	1 April 2014 (RPI Linked Rates)
1	£1.80
2	£3.60
3	£5.40
4	£7.30

- (c) Implement discounts on “authorised tolls” for cash and Fast Tag toll levels with effect from 1 April 2014. This results in an increase in the actual tolls charged as follows:

Vehicle Class	2014/15 Cash Toll	2014/15 Fast Tag Toll
1	£1.70	£1.40
2	£3.40	£2.80
3	£5.10	£4.20
4	£6.80	£5.60

Background Papers

Office for National Statistics for Economic Data.

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