

A303 Amesbury to Berwick Down

TR010025

4.2 Funding Statement

Volume 4

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Planning Act 2008

Infrastructure Planning (Applications: Prescribed
Forms and Procedure) Regulations 2009

October 2018



Infrastructure Planning

Planning Act 2008

**The Infrastructure Planning
(Applications: Prescribed
Forms and Procedure)
Regulations 2009**

A303 Amesbury to Berwick Down
Development Consent Order 20[xx]

FUNDING STATEMENT

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CONTENTS

1	Introduction	1-1
1.1	Purpose of document	1-1
2	Scheme procurement.....	2-1
2.1	Capital Expenditure	2-1
3	Sources of funding.....	3-1
3.2	Option 1 - combination of private and public finance.....	3-1
3.3	Option 2 - solely public finance	3-2
4	Commitment to and availability of funding.....	4-1
5	Conclusions on funding	5-1
5.1	Option 1.....	5-1
5.2	Option 2.....	5-1
6	Blight.....	6-1
7	References.....	7-1
APPENDIX A: Extracts from Government and Highways England Policy		
	Commitments to the Scheme.....	A-1
APPENDIX B: PwC letter		B-1

1 Introduction

1.1 Purpose of document

- 1.1.1 This Funding Statement ("this Statement") relates to an application made by Highways England ("the Applicant") to the Planning Inspectorate under the Planning Act 2008 ("PA 2008") for a Development Consent Order ("DCO"). If made, the DCO would grant consent for the Applicant to undertake the A303 Amesbury to Berwick Down scheme ("the Scheme").
- 1.1.2 The purpose of this document is to demonstrate that the Scheme will be adequately funded through the Road Investment Strategy ("RIS") (Ref 1-1) and/or government-backed private financing arrangements and therefore that funding is no impediment to the delivery of the scheme or the payment of compensation to persons affected by compulsory acquisition, temporary possession, or a blight claim.
- 1.1.3 This Statement has been prepared and submitted in compliance with Regulation 5(2)(h) of the Infrastructure Planning (Applications: Prescribed Forms and Procedure) Regulations 2009 (the "2009 Regulations") and in accordance with the Department for Communities and Local Government guidance 'Planning Act 2008: Guidance related to procedures for compulsory acquisition' (September 2013).
- 1.1.4 This Statement is required due to the fact that the DCO would authorise the compulsory acquisition of land, interests in land or rights over land. This leads to the requirement under Regulation 5(2)(h) for a statement indicating how the implementation of these powers in the DCO would be funded.
- 1.1.5 As this Statement is part of the application documents it should be read alongside, and is informed by, the other application documents; in particular, the Statement of Reasons (Application Document 4.1), which is also included in the application to comply with the requirements of Regulation 5(2)(h).
- 1.1.6 A detailed description of the Scheme can be found in 'The Case for the Scheme' (Application Document 7.1).

2 Scheme procurement

2.1 Capital Expenditure

- 2.1.1 The main Scheme has a capital cost estimate of £1.7 billion including allowances for risk and inflation. This estimate has been prepared in accordance with Highways England's procedures and HM Treasury's Green Book (Ref 2-1) and includes all costs to deliver the Scheme through to the end of construction and close out.
- 2.1.2 The budget has been approved by the Department for Transport Ministers.
- 2.1.3 It includes an allowance for compensation payments relating to the compulsory acquisition of land interests in, and rights over, land and the temporary possession and use of land. It also takes into account potential claims under Part 1 of the Land Compensation Act 1973, Section 10 of the Compulsory Purchase Act 1965 and Section 152(3) of the 2008 Act.
- 2.1.4 The estimates for compensation payments have been informed by land referencing activities, engagement of professional surveyors, and information received from consultation and engagement with parties having an interest in the land.
- 2.1.5 In addition to the cost of obtaining land, Highways England has also estimated the other direct costs associated with developing and implementing the Scheme, including the cost of obtaining consents, and procuring the Scheme, including the likely spend on obtaining specialist technical, legal and commercial advice.
- 2.1.6 The design, construction and maintenance costs for the Scheme have been validated and verified by benchmarking to other analogous projects, and through consulting with relevant global contractors, designers and cost consultants with noted experience of similar schemes, in particular the tunnelling market. Mechanical engineers, specialist tunnelling engineers and suppliers of materials, plant and labour were also consulted.
- 2.1.7 In combination with the approved budget, the cost estimates provide sufficient cost certainty to enable the Applicant to confirm the viability of the Scheme.

3 Sources of funding

- 3.1.1 Highways England is a Government owned and funded company and is responsible for operating, maintaining and improving the strategic road network in England. These responsibilities include the acquisition, management and disposal of land and property in relation to strategic road network improvement projects, together with the payment of compensation related to these activities. Highways England is responsible for delivering the major projects in the RIS.
- 3.1.2 The Scheme is being developed as part of a long-term commitment to improvements to the A303 / A358 corridor. Two other schemes are currently being developed, A358 Taunton to Southfields Dualling and A303 Sparkford to Ilchester Dualling. Each scheme has an independent funding stream and they are not dependent on each other.
- 3.1.3 There are currently two options for funding the Scheme:
- a) Combination of private and public finance
 - b) Solely public finance

3.2 Option 1 - combination of private and public finance

- 3.2.1 Under this scenario the Scheme would be funded by a combination of private and public finance. Direct development costs would be procured through public finance in the form of RIS funding of Highways England and the design, construction and maintenance would be funded through a Design Build Finance Maintain (“DBFM”) arrangement using the Private Finance 2 (“PF2”) contract model.

Elements to be publicly financed

- 3.2.2 Highways England, through its RIS, would publicly fund the following capital cost elements:
- a) Direct development costs, including DCO design and development costs, legal costs and land acquisition costs; and
 - b) Other works in advance of, or in parallel with, the main DBFM contract such as further archaeological, ecological and ground investigation works, site clearance and local highway modifications.
- 3.2.3 The costs for the elements of the Scheme listed above are estimated at £300 million including allowances for risk and inflation.
- 3.2.4 This estimate has been prepared in accordance with Highways England’s procedures as set out in Section 2 above and is in line with Highways England’s experience on other schemes and, where relevant, has been benchmarked to other projects of similar magnitude.

Elements to be privately financed

- 3.2.5 Highways England would contract with a private company ("DBFM Co") to design, build, finance and maintain the Scheme. The contracted DBFM Co would be responsible for the detailed design, construction and ongoing maintenance of the Scheme post construction, up to a total contract length of 30 years, and would be responsible for raising the debt required to finance the construction cost.
- 3.2.6 The DBFM Co, in return, would receive, over the contract operation period, a unitary charge payment from Highways England linked to the availability and performance of the Scheme for safe use by traffic. The up-front capital investment plus a return would therefore be 'paid back' to the DBFM Co by Highways England over a period of up to 30 years.
- 3.2.7 Highways England would retain responsibility for the strategic operational control of the scheme to ensure seamless operation with the rest of the strategic road network (e.g. remotely operating traffic signs in the tunnel from the regional control centre). The DBFM Co would be responsible for maintenance, renewals and non-strategic operations.
- 3.2.8 Highways England would receive hand-back of the capital asset and take over full responsibility for the operation and maintenance of the scheme at the end of the DBFM Co contract term. Acceptable condition of handback would be set out in the contract.
- 3.2.9 After payment of the publicly financed development costs, the main Scheme has a capital cost estimate, prepared as set out in Section 2, of £1.4 billion including allowances for risk and inflation.
- 3.2.10 Although this budget covers the cost of implementation of the Scheme, financial modelling has also been carried out to estimate the annual Unitary Charge that Highways England would need to pay during operational years in future RIS periods based on the estimated construction costs and costs of financing.
- 3.2.11 PwC, as Highways England's financial advisor for the Scheme, has developed a shadow bid financial model to estimate the cost of the Unitary Charge payments that would be made to the DBFM Co. The estimates have been prepared in accordance with Highways England's procedures and HM Treasury's Green Book guidance and include allowances for risk and inflation.
- 3.2.12 The estimated annual Unitary Charge has been calculated, but is not being released at this stage due to the commercial sensitivity before any potential tender process has started.

3.3 Option 2 - solely public finance

- 3.3.1 If the Scheme is to be funded by public finance alone, funding will come via Government funding of Highways England, as a Government owned company, responsible for delivering the major projects in the RIS.

4 Commitment to and availability of funding

- 4.1.1 The funding commitment for the Scheme was initially made by Government in June 2013, whilst Highways England's predecessor body, the Highways Agency, was responsible for operating, maintaining and improving England's strategic road network. This commitment was made in the policy document "Investing in Britain's Future" (Ref 3-1).
- 4.1.2 The Government subsequently published the RIS on 1 December 2014. The RIS is underpinned by the Infrastructure Act 2015 and the creation of Highways England on 1 April 2015. It provides certainty of Government funding with over £15 billion ring-fenced to be invested in major roads between 2015/2016 and 2020/2021. The Scheme was announced in the RIS as a committed and therefore funded scheme.
- 4.1.3 Moreover, Government's commitment to the A303 Corridor went beyond the first five year (2015-2020) Road Period:
- Full implementation of these proposals will run beyond the first Road Period, and we intend that subsequent Road Investment Strategies will fund the remaining improvements.* (Road Investment Strategy, page 17 para 9)
- 4.1.4 The funding commitment was reiterated in the Highways England Delivery Plan 2015- 2020 (March 2015) (Ref 4-1) and each subsequent delivery plan, the most recent of which was the 2018/19 Delivery Plan Update published in July 2018 (Ref 4-2).
- 4.1.5 Relevant extracts from these documents are included in Appendix A.

5 Conclusions on funding

5.1 Option 1

- 5.1.1 In relation to the private funding element of Option 1, Highways England with its external advisor PwC (see Appendix B) held Market Engagements with private finance debt funders in June/July 2018. The prognosis from those soundings is that there is currently a liquid market and based on the cost estimates set out in Section 2, there is no concern on market capacity to fund A303 privately.
- 5.1.2 In respect of the public funding element of Option 1 (development costs and payment of the unitary charge), the Government and Highways England commitments set out above demonstrate that those elements will be fully funded by Government and Highways England will be authorised to contract to pay the Unitary Charge over the life of the DBFM contract.
- 5.1.3 It is therefore clear that the funds would be available to implement the Scheme under Option 1.

5.2 Option 2

- 5.2.1 In relation to the Option 2, the Government and Highways England commitments as set out above demonstrate that the Scheme will be fully funded by the Department for Transport. Funds would therefore also be available to implement the Scheme under Option 2.

6 Blight

- 6.1.1 The term 'blight' refers to the reduction of economic activity or property values in a particular area resulting from possible future development, or restriction of development. Blight notices may be served on the Applicant by those with a qualifying interest in affected land.
- 6.1.2 To date no blight notices have been served in respect of the scheme.
- 6.1.3 Should any future claims for blight arise as a consequence of the proposed compulsory acquisition of land, or rights in land, affected by the Scheme, the costs of meeting any valid claim will be met by Highways England.

7 References

- Ref 1-1 Road Investment Strategy: for the 2015/16 – 2019/20 Road Period, Department for Transport, March 2015
- Ref 2-1 The Green Book; Central Government Guidance on Appraisal and Evaluation, HM Treasury, 2018
- Ref 3-1 Investing in Britain's future, HM Treasury, June 2013
- Ref 4-1 Delivery Plan 2015-2020, Highways England, 2015
- Ref 4-2 Delivery Plan 2018-2019, Highways England, July 2018

APPENDIX A: Extracts from Government and Highways England Policy Commitments to the Scheme

Road Investment Strategy (Ref 1-1)

[RIS] commitments... include ... Transforming connectivity to and from the South West by dualling the entire A303 from the M3 to the M5 at Taunton, and building a tunnel as the road passes Stonehenge (Part 1, p55)

[The country] needs ... dependable roads. Many parts of the country are linked by A-roads that are mostly high-quality, but are dominated by one or two bottlenecks. Consistency of performance is required – and to achieve this we will create a series of ... consistently good roads ... The South West will lead the country in adopting this approach. £2 billion of investment in the A303 will create a new ... corridor into the region. (Part 2, p7)

The A303/A30/A358 corridor is a vital connection between the South West and London and the South East. While the majority of the road has been dualled, there are still over 35 miles of single carriageway. These sections act as bottlenecks for users of the route resulting in congestion, particularly in the summer months and at weekends, delays to traffic travelling between the M3 and the South West and an increased risk of accidents. The A303 passes through the Stonehenge World Heritage Site, separating the iconic stones from other Scheduled Monuments and severely limiting the enjoyment of the wider site. (Part 2, p17)

We recognise the damage that the existing road does to the setting of numerous Scheduled Monuments and Stonehenge itself, and so we intend to construct a tunnel at least 1.8 miles long to take traffic away from the surface, reuniting the landscape of the World Heritage Site. (Part 2, p17)

We intend to upgrade all remaining sections of the A303 between the M3 and the A358 to dual carriageway standard, together with creating a dual carriageway link from M5 at Taunton to the A303...(Part 2, p17)

Full implementation of these proposals will run beyond the first Road Period, and we intend that subsequent Road Investment Strategies will fund the remaining improvements. (Part 2, p17)

The Scheme was specifically committed to as part of the corridor improvements:

A303 Amesbury to Berwick Down dualling – construction of a twin-bored tunnel at least 1.8 miles long as the road passes Stonehenge and a bypass for Winterbourne Stoke to link the existing dual carriageway section around Amesbury with the dual carriageway at Berwick Down. (Part 2, p17)

Investing in Britain's Future (Ref 3-1)

The Government will:

- *commit to the biggest programme of investment in roads since the 1970s. The Government will treble annual investment in major road schemes by 2020-21, compared to today's levels, by:*
 - *identifying and funding solutions to tackle some of the most notorious and longstanding road hot spots in the country, including feasibility studies to look at problems on the A303 to the South West, (p6, section 1.8)*

Highways England's Delivery Plan 2015 – 2020 (Ref 4-1)

The Delivery Plan states that Highways England will take forward and develop solutions to a number of issues, including the A303 / A30 / A358 corridor. This will involve 'creating up to 35 miles of dual carriageway between Amesbury in Wiltshire and Honiton in Devon which will improve the connectivity, journey time reliability and road safety.'

Highways England's Delivery Plan 2018 – 2019 (Ref 4-2)

A further significant scheme for which the Secretary of State for Transport has announced the preferred route is the A303 Stonehenge upgrade⁵. Totalling £1.6 billion, this includes the construction of a tunnel under one of the world's most famous prehistoric monuments, a free-flowing dual carriageway and a much-needed bypass north of Winterbourne Stoke. (p9)

APPENDIX B: PwC letter



Derek Parody
Project Director
Highways England
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Bristol BS1 6HA

14 September 2018

A303 Amesbury to Berwick Down Scheme

Dear Derek,

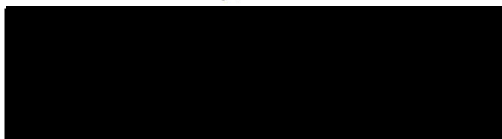
PwC, as Highways England's financial advisor for the A303 Amesbury to Berwick Down Scheme, have assisted with the following activities:

- Development of a Shadow Bid Financial Model to estimate the annual unitary charge; and
- Market Engagement of Debt Funders in June and July 2018 to confirm the deliverability of private finance in the current market.

We have used feedback from the market engagement to help benchmark the financial assumptions in the Shadow Bid model, which reflect current market conditions. In addition, due to the potential for market conditions to change between now and the expected date of financial close, the rates used within the Shadow Bid Model include a buffer on the underlying long term interest rate.

This letter has been prepared only for Highways England and solely for the purpose and on the terms agreed with Highways England under our contract dated 13 December 2017. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else without our prior written consent.

Yours sincerely,



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