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Tyne and Wear Passenger Transport Authority

New Tyne Crossing

Summary of Proof of Evidence on Financial Analysis

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1 Introduction

- 1.1.1 I am Nicholas James Chism MA, ACA of KPMG LLP, in London. I am the partner responsible for the advisory work carried out by KPMG for the Tyne and Wear Passenger Transport Authority ("TWPTA") in connection with the New Tyne Crossing.
- 1.1.2 My proof of evidence contains my qualifications to act and details of KPMG's relationship with TWPTA.
- 1.1.3 My evidence focuses on the question of whether the New Tyne Crossing project is reasonably capable of attracting the necessary funding.
- 1.1.4 KPMG assisted Arup with the financial aspects of a project review carried out in May 2001 and a comparison of the immersed tube and bored tunnel options in February 2002.
- 1.1.5 For this purpose, KPMG undertook financial modelling to produce an estimated range of toll levels required to sustain a financially free-standing PPP/PFI structure for the New Tyne Crossing project. These toll levels were calculated on the basis of input assumptions relating to revenues and costs. As detailed below, the financial model uses information which has been supplied by other witnesses to this inquiry, which is outside my field of expertise.
- 1.1.6 Arup has produced assumptions for expected revenues based on traffic. The financial model revenue line is based on these assumptions. The traffic assumptions underlying the Arup revenue estimates are presented in more detail in the Proof of Evidence on Transport prepared by Gordon Henderson.
- 1.1.7 Cost estimates in respect of construction, operational and maintenance costs, together with indexation assumptions, have been produced by Arup and are discussed further by Richard Thurlow in his Proof of Evidence. They are produced for an expected concession period of up to 35 years. Cost estimates in respect of insurance costs and debt service commitments for the existing tunnel have been provided by the TWPTA. KPMG has provided cost estimates in relation to debt service commitments for the new crossing.
- 1.1.8 The conclusions of this work were that the expected range of tolls required for a financially free standing immersed tunnel project was at this time (February 2002)

estimated to be in the range of £1.10-£1.55 for cars in 2007 (in 1999 prices), with £1.30 confirmed as the base case toll rate.

- 1.1.9 We have been advised of various changes to the underlying assumptions since February 2002 and have updated the financial model accordingly. Taking account of these changes, the latest runs of the financial model produce an expected range of tolls of £1.35-£1.85 for cars and a base case toll for cars of £1.55 in 2007 (expressed in 1999 prices).
- 1.1.10 There is a well-established and active market in the UK and overseas for road and crossing projects funded as PPPs. In the UK and Ireland, more than 20 such deals have either reached financial close, or are currently in procurement.
- 1.1.11 These projects are based on a broadly comparable contractual model, which is subject to negotiation, but which is recognised as “bankable” – in other words, it is a suitable basis for attracting the necessary funding. It is anticipated that the New Tyne Crossing contractual framework will follow this model closely.
- 1.1.12 In addition, similar road and crossing projects are being progressed in many countries worldwide, usually on a user paid toll basis. While it is difficult to measure the true size of such a diverse market, I have estimated that there are approximately 120 projects active or contemplated in more than 20 countries across Europe with a combined capital value of approximately Euro 60 billion. The worldwide market for such projects is very much greater but it would be extremely difficult to define.
- 1.1.13 There are, within the UK market, a number of established consortia, comprising contractors, operators and other relevant parties, which at present are likely to have the technical capabilities and the financial standing to complete the New Tyne Crossing project. Furthermore, there are a number of other companies, which are not attached to these existing consortia, which may themselves express interest in the project, either by joining an existing consortium or by attempting to form a new one. A number of new consortia have recently entered the Irish market, where levels of international interest in projects has been very high.
- 1.1.14 In general, the market appetite for projects of this nature is good.

1.1.15 The main distinguishing feature of the New Tyne Crossing project is that revenue payable to the concessionaire purely comprises toll revenues without public sector subvention. This toll revenue risk is mitigated by a number of factors that benefit the project, including the fact that tolls have been paid for many years on the existing crossing and that all (or almost all) toll revenue during construction will be payable to the concessionaire.

1.1.16 It is my view that, on the basis of the following fundamental assumptions:

- a. That the revenue and cost assumptions provided by Arup, and those financial costs assumptions provided by KPMG, prove to be complete and accurate;
- b. That the TWPTA is correct in its assertion that the range of toll levels set out above will be acceptable to users of the New Tyne Crossing and that this view will be shared by bidders for the project, together with their lenders and advisers;
- c. That the current outline risk allocation for the New Tyne Crossing project is developed into a contractual framework which is broadly consistent with the bankable model currently used within the market; and
- d. That current economic conditions remain favourable to projects of this nature;

the New Tyne Crossing is reasonably capable of attracting the necessary funding.