EXPLANATORY MEMORANDUM TO

THE HUMBER BRIDGE (DEBTS) ORDER 2012

2012 No. 716

1. This explanatory memorandum has been prepared by the Department for Transport and is laid before Parliament by Command of Her Majesty.

2. Purpose of the instrument

2.1 This instrument, made under section 1(1) of the Humber Bridge (Debts) Act 1996, waives the sums of £38,789,000 and £111,211,000, which together total £150 million, from the debt owed to the Secretary of State for Transport by the Humber Bridge Board under agreements made under section 5(3) of the Humber Bridge Act 1971, and waives all interest payable on that debt, after deducting the above sums, which exceeds interest calculated at the rate of 4.25% on the outstanding loan balance.

2.2 It does this by:

(a) waiving the sum of £38,789,000, being an amount of principal owed under the Agreements specified in item 15 of the Table in paragraph 3 of the Schedule to the Humber Bridge (Debts) Order 1998 ("the 1998 Order"). By virtue of the 1998 Order that amount of principal does not accrue interest for the year commencing 1st April 2012. This Order now waives that principal.

(b) waiving a further sum of £111,211,000 from the remainder of the debt; and

(c) waiving a sum of interest calculated on the remaining debt in relation to an interest rate of 4.25%. As that rate is lower than the rates set in the Humber Bridge (Debts) Order 2011 that Order is therefore revoked.

2.3 The instrument thereby simplifies the arrangements for the debt without revoking the 1998 Order, in effect setting a single interest rate payable on the entire outstanding loan balance.

2.4 For the avoidance of doubt, the sum of £19,741,000 on which no interest is payable in the year commencing 1st April 2013 , as specified in item 16 of the Table in the Schedule to the 1998 Order, forms part of the sum of £38,789,000 being waived under Article 2(3)(a) of this Order, and therefore is also waived.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Context

4.1 Section 5(3) of the Humber Bridge Act 1971 authorises the Secretary of State to enter into agreements with the Humber Bridge Board for the financing of the construction and maintenance of the Humber Bridge.

4.2 Section 1(1) of the Humber Bridge (Debts) Act 1996 empowers the Secretary of State to provide that any sum (including interest) payable to the Secretary of State by the Board pursuant to such agreements shall not be payable.

4.3 These Regulations are subject to negative resolution procedure.

5. Territorial Extent and Application

This instrument applies to England.

6. European Convention on Human Rights

As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

- ***What is being done and why***

7.1 The Humber Bridge was promoted by the local authorities and opened in 1981. Central Government's involvement was to make available funds to borrow. The bridge remains the responsibility of the local authorities and is administered by a Bridge Board, currently comprising representatives from Hull City Council, East Riding of Yorkshire Council, North Lincolnshire Council and Lincolnshire County Council. The Bridge Board has the power to levy tolls and to fund any deficit on its operating and financing costs by imposing a levy on those councils. Currently, the cost of making up any deficit would fall almost entirely on the council tax payers of Hull.

7.2 Completion of the bridge took significantly longer than had been planned. Although its construction cost was £98m, by the time the bridge opened to traffic and toll revenue started to be collected, the capitalisation of unpaid interest in accordance with the provision of the legislation had already brought the bridge debt up to £151m, substantially higher than had been expected.

7.3 From 1981-92 the Bridge Board struggled with this greater than expected level of debt. Although the bridge has always made a substantial operating surplus before financing costs, it was insufficient to cover the full cost of interest, and the outstanding debt increased year by year, from £151m in 1981 to £439m at 31 March 1992.

7.4 The Government has done a great deal to assist with the finances of the Humber Bridge. In the period 1992-98 it provided a total of £258m of grant funding, covering the cost of the unpaid interest each year, and stabilising the level of the debt. Under the Humber Bridge (Debts) Order 1998, it wrote off £80m of debt and interest owed to the Public Works Loan Board, and substantially reduced the burden of interest on the £359m owed to the Secretary of State for Transport. The 1998 Order did this by waiving interest on £240m of the debt and levying a new lower interest rate of 7.75% on the remainder (£119m) of the debt. The Schedule to the 1998 Order specified a schedule which decreased, each year for sixteen years to 31 March 2014, the amounts of debt not subject to interest ("the Releases"), thus making a larger sum subject to the 7.75% interest rate each year.

7.5 The Humber Bridge (Debts) Order 2007 further reduced the burden of interest on the Bridge Board by waiving sums of interest that would otherwise have been owing on the portion of the debt, after taking account of the Releases, such as to achieve an effective interest rate of 4.25% on the entire debt until 31 March 2011. This resulted in the Board saving £16.6m in interest payments over the five year period. The intention of the Humber Bridge (Debts) Order 2011 was to extend this arrangement for a further five years, maintaining the status quo in terms of the burden of interest on the Bridge Board, pending the outcome of the Humber Bridge Review.

7.6 In 2010 the Department for Transport commissioned the development of the Humber Estuary Transport Model to allow the appraisal of the impact of different Humber Bridge toll levels on the Humber area economy. In June 2011 the Department for Transport and HM Treasury commenced a joint review, the Humber Bridge Review, to identify a long term sustainable solution to the bridge debt.

7.7 The outcome of the economic appraisal suggested that reducing tolls on the bridge would have a positive economic impact for both the Humber area and the UK as a whole. The outcome of the joint review was Government recognition that the Humber Bridge has a unique history and a unique burden of interest in relation to its construction costs.

7.9 On the basis of the findings from the review, the Government considers that a substantial write down of the current level of the debt is justified. This will allow the current toll levels for cars to be halved from £3.00 to £1.50 as soon as possible.

8. Consultation Outcome

There is no statutory requirement to formally consult in these circumstances and the Order does not affect any other body or class or persons; therefore, a public consultation was not carried out.

9. Guidance

The arrangements for this Order are well known to the Humber Bridge Board, relevant local authorities and local MPs.

10. Impact

10.1 An Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies, other than to reduce the costs of tolls payable by such bodies for crossing the Humber Bridge.

10.2 The impact on the public sector is that the Department for Transport will receive from the Humber Bridge Board £150m less in capital repayments and substantially less in interest payments over the next 22 years (forecast to be £123m).

11. Regulating small business

The legislation does not apply to small business.

12. Monitoring and review

The intention is that the provisions of this Order will apply until the debt owed to the Secretary of State by the Humber Bridge Board is paid off. Therefore, there is no intention to monitor or review the Order.

13. Contact

13.1 Evette Johnson at the Department for Transport can answer any queries regarding the instrument. Tel: 020 7944 2041. E-mail: Evette.Johnson@dft.gsi.gov.uk.