

Memorandum

Dated 26th May 2009

In connection with the accounts of

The Company of Proprietors of Whitchurch Bridge

For the years ended 30th June 2004 to 30th June 2008

*Prepared by A. J. Kerevan FCA
26th May 2009*

Memorandum dated 26th May 2009 in connection with the accounts of The Company
of Proprietors of Whitchurch Bridge
for the five years ended 30th June 2004 to 30th June 2008

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Memorandum dated 26th May 2009 in connection with the Accounts of The Company
of Proprietors of Whitchurch Bridge
For the five years ended 30th June 2004 to 30th June 2008

1 Introduction

The Company of Proprietors of Whitchurch Bridge ("the Company") was set up by an Act of Parliament in 1792 to construct a bridge over the river Thames between Whitchurch and Pangbourne and to levy tolls for "the passage thereover". The Company has operated Whitchurch Bridge ("the Bridge") from the time of that Act to the present day.

The Company can only increase the tolls it levies to cross the Bridge by application to the Secretary of State for Transport under the provisions of the Transport Charges &c (Miscellaneous Provisions) Act 1954 ("the 1954 Act ").

A further act "Whitchurch Bridge Act 1988" ("the 1988 Act") was enacted to modify the 1954 Act in its application to the Company, to confer additional powers on the proprietors and to amend or repeal certain of the local provisions applicable to them. The 1988 Act contains certain clauses in relation to the finances of the Company which will be referred to later in this Memorandum.

The Committee of Management of the Company ("the Committee"), after taking independent advice, has concluded that the Bridge will need to be replaced or reconstructed by 2015 at the latest. The latest estimate of the replacement cost, stated in the accounts for the year to 30th June 2008, is £3.54 million and it seems the Committee does not believe that the Company can meet this cost (or the cost of reconstruction which is estimated at £3.22 million) wholly out of existing funds and borrowings and have therefore submitted an application (" the Pending Application") to The Secretary of State for Transport to increase the tolls from 20p to 40p (and £2.00 to £3.00 for heavy vehicles)

The Parish Council of Whitchurch-on-Thames ("the Parish Council") is concerned that an increase of this magnitude will have a serious effect on its parishioners who need to use the Bridge frequently. It has submitted a letter dated 10th December 2008 to the Secretary of State for Transport objecting to the proposed increase.

2 Scope of the Review

For the purposes of the preparation of this memorandum the annual audited accounts of the following companies have been reviewed :-

*The Company for the four years to 30th June 2008
Whitchurch Bridge One Limited ("W1") for the year to 30th June 2008
Whitchurch Bridge Two Limited ("W2") for the year to 30th June 2008
Whitchurch Bridge Three Limited ("W3") for the year to 30th June 2008
Whitchurch Bridge Four Limited ("W4") for the year to 30th June 2008
Whitchurch Bridge (Holdings) Limited ("Holdings") for the year to 30th June 2008*

These six companies together are referred to in this Memorandum as "the Group"

The following documents have also been sighted:-

The three acts referred to in section 1 above, the "Application to Increase the Tolls at Whitchurch Bridge" issued on 31st October 2008 made by the Company to The Secretary of State for Transport ("the Pending Application"), the Statement of Reasons supporting the application to increase the tolls dated 10th May 2009 (the Statement of Reasons) and the letter written to the Secretary of State for Transport by the Clerk to the Parish Council dated 10th December 2008

3 Structure of the Group

The Company has a share capital of 47 ordinary shares of £100 each. These shares are owned by W1 12 shares, W2 12 shares, W3 12 shares and W4 11 shares.

W1, W2, W3 and W4 each have a share capital of 1000 ordinary shares of £1 each. All of these 4000 shares are owned by Holdings so that Holdings is effectively the owner of the Company.

The Group structure described above is illustrated in Appendix 1. The Company is the only trading company in the Group, the other companies simply acting as a conduit to pass dividends to the shareholders of Holdings, the effective owners of the Company. It is not clear why the Group is structured in this form and in particular the purpose of the four intermediate companies. However, this does not seem to be relevant to the application to increase the toll fees and so has been ignored for the purposes of this Memorandum.

4 The Profit and Loss Accounts of the Company

A summary of the profit and loss accounts of the Company for the five years to 30th June 2008 is set out in Appendix 2 and a summary of the balance sheets of the Company at each year end is shown in Appendix 3 (the figures for the year ended 30th June 2004 were taken from the comparative figures in the 2005 accounts).

The turnover is the amount received from tolls and wayleaves and has increased from £183K in 2003/04 to £266K in 2007/08 although this latter figure is £1K less than the previous year. The increase is largely due to the increase in toll fees granted to the Company following an application to The Secretary of State for Transport to increase the tolls to the present levels of 20p (and £2.00 for heavy vehicles) in 2004 which was granted. The Committee, in Appendix 3 of the Pending Application, has demonstrated that there is a slight downward trend in the number of vehicles using the Bridge during the period reviewed and in the Statement of Reasons have postulated that this is thought to be due to multiple cultural and economic factors.

Cost of sales have remained reasonably consistent. Apparently the Company benefited in 2005 from the introduction of the card discount system which meant that it did not need so many staff at the toll station.

Administration expenses have increased significantly through the period although the large increase in 2007/08 is caused by expenditure on legal and professional fees which amounted to £121,000 (2006/07 £8,000). Presumably this mainly relates to work carried out by Oxfordshire County Council in relation to the advice given on the structural and risk management issues and the restructuring cost estimates.

The operating profit, investment income and dividend payments to shareholders are summarised below:-

<u>Year ended</u> <u>30th June</u>	<u>Operating</u> <u>Profit/(loss)</u> <u>£000</u>	<u>Investment</u> <u>and other</u> <u>income</u> <u>£000</u>	<u>Total</u> <u>Income</u> <u>£000</u>	<u>Dividends</u> <u>£000</u>	<u>Retained</u> <u>Profit</u> <u>£000</u>
2004	12	20	32	30	2
2005	74	86	160	30	130
2006	51	113	164	30	134
2007	63	113	176	42	134
2008	(30)	85	55	49	6

It is not clear why the investment income was so little in 2003/4 . It will be noted that dividends paid to shareholders were static in the three years to 2006 but have been increased significantly in the last two years. The retained profit, after the payment of dividends, has been added each year to the bridge replacement and reserve fund, ("the Reserve Fund") which, at 30th June 2008, amounted to £1.86 million. The Reserve Fund is defined in section 7 of the 1988 Act as follows:-

"7. (1) the Company shall make due provision for the maintenance and renewal of the Bridge by setting apart in each year out of revenues sums for the formation and maintenance of a reserve fund in accordance with this section

(2) Any sums forming part of the reserve fund shall be applicable for meeting all costs, charges, demands and expenses incurred by or made upon the Company howsoever rising out of the renewal, repair or alteration of the bridge, or in the purchase of land required in connection with such renewal or alteration.

(3) Any sums forming part of the reserve fund which are not for the time being required for expenditure for purposes for which the fund is applicable may be invested in any manner prescribed by statute for the investment of trust funds: and the dividends and the dividends and interest arising from such investment may also be invested in the same manner so as to accumulate at compound interest for the credit of the reserve fund."

At 30th June 2008 the Reserve Fund amounted to £1.86 million, the amount of investments was £1.43 million and the estimated cost of replacement of the Bridge in 2013 is stated at £3.54 million. The Pending Application refers to the cost of reconstruction as being £3.22 million. (In appendix H of the Statement of Reasons it sets out the difference between the cost of replacement and the cost of reconstruction). However it is quite clear that the reserve fund will not be adequate to meet either the cost of replacement or reconstruction and that is why the Committee is seeking to increase the tolls, but even if the requested increases are granted it will still, in the Committee's estimation, be necessary to obtain significant borrowings to meet the costs. It seems quite clear that in the past insufficient sums have been transferred to the Reserve Fund. The estimated cost of replacing or reconstructing the Bridge has escalated in recent years as the following table shows. These figures are extracted from the accounts.

<i>At 30th June</i>	<i>Estimated cost of replacement £ million</i>
<i>2004</i>	<i>1.79</i>
<i>2005</i>	<i>2.89</i>
<i>2006</i>	<i>2.98</i>
<i>2007</i>	<i>3.29</i>
<i>2008</i>	<i>3.54</i>

It is the recent serious escalation in these estimated costs that has resulted in the deficit that will need to be funded.

5 Dividends

It is a matter of concern that the Committee, despite the knowledge of the substantial increase in the estimated cost of replacement or reconstruction of the Bridge since 2004/05, has continued to pay dividends to shareholders. These dividends are shown in the table on page 3 of this Memorandum and it will be noted have increased in the last two years from £30K to £49K. Clearly the Committee has a responsibility to shareholders and should do their utmost to ensure the shareholders have a reasonable return on the investment they have made in the Company. However the 1988 Act stipulates in Clause 4 how the money derived from tolls should be applied; as follows:-

“4 Tolls taken under the Act of 1792 shall be applied by the Company--

(a) in meeting all expenses incurred in, and in connection with, taking of tolls and other administration expenses of the Company incurred in connection with the bridge:

(b) in defraying costs incurred as provided by section 10 of this Act :

(c) in the payment of taxes (if any) :

(d) in defraying the cost of providing, maintaining and renewing toll houses, toll gates signals, offices, equipment or other conveniences held or used by the Company in connection with the bridge :

(e) in meeting any expenditure incurred by the Company in, or in connection with, the maintenance repair or alteration of the bridge :

(f) in paying interest on any moneys borrowed under section 6 of this Act : and

(g) in setting apart contributions to a reserve fund under section 7 of this Act :

And any balance remaining may be applied by the Company in payment of dividends on its paid up share capital”

It seems reasonably clear from this that the Committee should not pay dividends unless it is satisfied that all expenses have been met and sufficient sums have been transferred to the Reserve Fund. The amount that should be transferred each year to the Reserve Fund is not set out in the 1988 Act but in view of the large increase in estimated building costs

it seems imprudent not to have transferred larger sums to the Reserve Fund and to have continued to pay dividends in recent years. The Committee's policy seems to have been to pay a dividend each year and then to transfer the balance of the profit for the year to the Reserve Fund whether or not this is sufficient to make proper provision for the future replacement or reconstruction costs

Under Section 7 subsection (3) of the 1988 Act, which is set out above, dividends and interest arising from investments which have been set aside for the Reserve Fund may also be invested so as to accumulate at compound interest for the credit of the Reserve Fund. As will be seen from the table on page 3 of this Memorandum in the year to 30th June 2008 the Company made an operating loss of £30K that was turned into a profit of £55K only after investment income of £85K had been included. The dividend payment of £49K was therefore effectively made out of this investment income, which should have been wholly for the benefit of the Reserve Fund

In the Pending Application the Committee has stated that:-

" currently a dividend of 2.3% before tax is maintained based on the asset value as defined in the Act at 30th June 2008 and is paid out to Whitchurch Bridge (Holdings) Limited which has held all the shares of the 1792 Whitchurch Bridge Company since May 1996. This rate of return for shareholders of 2.3 % is well below the 6-10% range that shareholders of similar regulated industries could reasonably expect".

The dividends are paid through the Group structure to Holdings which in turn pays a lesser dividend to its shareholders after meeting certain group expenses and retaining the balance in Holdings and W1,W2,W3 and W4.

Dividend yields are normally calculated on the value of the shares in issue, which may or may not bear any relationship to the net assets of the company. The value of the shares is generally the price which the shares would realise on an open market and this will depend on many factors including, inter alia, the viability and future prospects of profitability. Until the Committee can demonstrate this level of profitability for the Company following reconstruction of the bridge it is difficult to gauge what price a potential shareholder would be prepared to pay to buy the shares. It does, however, seem unlikely that a potential shareholder would pay the present asset value when the Company has the responsibility to reconstruct the bridge at a cost of £3.5 million within the next five years and in order to be able to do this it will need to seek an increase in toll rates from the Secretary of State for Transport, which he may not grant, and also borrow significant sums which may, or may not, be forthcoming.

It is interesting to note that section 6 subsection (3) of the 1954 Act states that in making an order to increase tolls the Minister shall have regard to costs of the undertaking "including reasonable contributions to any reserve contingency or other fund and,

where appropriate, a reasonable return upon the paid up share capital of the undertaking” However the 1988 Act section 3 subsection (1) amends this subsection by stating that “ Section 6 (3) of the 1954 Act shall have effect as if the words “the paid up share capital of the undertaking” there were substituted the words “ the investment of the Company of Proprietors of Whitchurch Bridge in the bridge as defined in section 2 of the Whitchurch Bridge Act” Section 2 of the 1988 Act states “ the bridge means Whitchurch Bridge of the Company and all the lands, easements, rights, toll houses. Toll gates, signals, offices and other assets of whatever description for the time being held or used by the Company in connection with that bridge.

The Committee has interpreted this to include the investments which have been accumulated to meet the future cost of the new bridge. It is open to question whether or not these investments fall within the definition above and should not therefore be taken into account when calculating a reasonable return for shareholders. By way of example if the dividend yield were to be based on the issued share capital and share premium in Holdings, which is effectively the amounts the shareholders themselves have paid to the Group for their shares the dividend yield is 11.3%. If it is based on the assets relating to the present bridge at 30th June 2008 ie excluding the investments set aside for the future reconstruction it would be 6.8% So effectively it would seem a rate of 2.3% on net assets is not an unreasonable rate to expect.

6 The Balance Sheets of the Company

A summary of the balance sheets of the Company shown in the accounts for the five years to 30th June 2008 is set out in Appendix 3.

It is not clear why stocks have increased by so much in 2006/07 and 2007/08. The Tangible assets include the Bridge, the toll house and various other fixtures.

The Bridge is stated in the accounts at depreciated replacement cost. The movements on this account for the last four years is demonstrated below:-

	<u>30th June 2005</u>	<u>30th June 2006</u>	<u>30th June 2007</u>	<u>30th June 2008</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Opening book value	175	245	221	186
Additions	56	-	-	-
Revaluation	14	(24)	(35)	(38)
Closing book value	245	221	186	148

The policy adopted by the Company for the bridge is set out in note 1 of the accounts which states:-

“The bridge is classified as specialised property and is re-valued annually on the basis of depreciated replacement cost. For the purpose of this calculation the major refurbishment is assumed to take place in 2013”.

It would seem that, for the purpose of this policy that at the end of each financial year the cost of replacing the bridge in 2013 has been estimated and from this a figure has been arrived at by dividing it by the expected life of the bridge in years and multiplying the resulting figure by the remaining years to 2013 to arrive at the closing book value. The difference between the opening and closing valuation, shown in the above table as revaluation, has then been taken to the profit and loss account. The same policy has been adopted for the four years reviewed for the purposes of this Memorandum but it is not known if this policy was adopted for many years before.

One of the principal reasons for adopting this depreciated replacement cost policy is, presumably, to ensure that sufficient reserves are set aside to meet the cost of the new asset when the time comes to replace it. To do this it is necessary to make two estimations, one is the replacement cost of the bridge and the other the date of replacement. The company does have accurate information on which to base both of these estimates but nevertheless has not been able to set aside sufficient reserves to meet the rebuilding of the bridge in 2013. The large increase in the estimated cost of reconstruction in the last five years has almost certainly contributed to this but it seems very strange that in the year 2004/05 when the estimated cost of reconstruction of the bridge increased from £1.79 million to £2.89 million there was no charge for depreciation indeed, on the contrary, there was a credit to the profit and loss account of £14,000. This still begs the question as to why the Committee have continued to pay dividends during this period.

Investments, which seem to be incorrectly described as the reserve fund in some documents, presumably because they are specifically set aside to pay for the reconstruction costs, are stated in the accounts at cost. The accounting policy of the Company relating to investments states

“ Fixed asset investments are stated at cost less provision for diminution in value “

At 30th June 2008 the cost of investments was £1,429,499 and the market value was £1,454,404 so no provision for diminution in value was required. However the Statement of Reasons in appendix M, Investment Management shows that similar figures in 2009 (no specific date given) show a deficiency of £228K being the difference between cost of investments of £1,571K and the market value of £1,343K. If this situation persists through to June 30th 2009 the Company will have to make provision for the diminution

in value through the profit and loss account and based on recent levels of operating profit there will be little or no profit left out of which to pay a dividend or make a transfer to the Reserve Fund.

Included in the capital and reserves is a revaluation reserve. This reserve remained static in the period under review until 2007/08 when it increased by £17K to £282K following a revaluation of the toll house. The origination of the revaluation reserve is not known. The "other reserves" entirely comprise the Bridge replacement and repairs fund.

7 The Pending Application

The Pending Application, which has already been referred to in parts of this Memorandum, was submitted to the Secretary of State in October 2008 and sets out the reasons why the Committee believes it is necessary to seek an increase in the tolls. It sets out various estimations of effects of a) not increasing the tolls b) increasing the tolls to 30p (and heavy vehicles £3.00) in 2009/10 and c) increasing the tolls to 40p (and heavy vehicles £3.00) in 2009/10. In arriving at these figures various assumptions have had to be made, which do not seem unreasonable.

The three estimations set out in the Pending Application show that the borrowings that would be required by the Company to build the bridge in 2013 under the three alternative scenarios are :-

- a) £1.9 million*
- b) £1.3 million and*
- c) £1.0 million.*

The Pending Application includes estimated cash flows and balance sheet forecasts for a) and c) above for the period of six years to 2012/13, when the bridge is to be reconstructed. It would have been helpful for the Committee to have prepared pro-forma estimates of the profit and loss account of the Company for all three of the scenarios which they have set out once the bridge had been reconstructed and was full operational This would indicate the level of profitability that might be expected to accrue for shareholders in future years.

8 The Statement of Reasons

The Committee has submitted a Statement of Reasons to support the Pending Application This appears to be a comprehensive document and shows that the Committee has reviewed the finances and future of the Bridge under its control and management. In Appendix L Financial Management and Business Model there are projections of profit

for the years to 30th June 2013 which the Committee believes demonstrates the need to increase the toll cost to 40p. It has not been possible to attempt to validate all the assumptions that have been made to arrive at this conclusion but it does seem unrealistic to budget for an increase in dividends payable to shareholders when the Country is in a deep recession and the Company is in desperate need of funds to rebuild the Bridge.

As mentioned under the paragraph headed The Pending Application above it would have been helpful to see a pro-forma profit and loss account for the year after the new bridge is installed and is fully operational

9 Conclusions

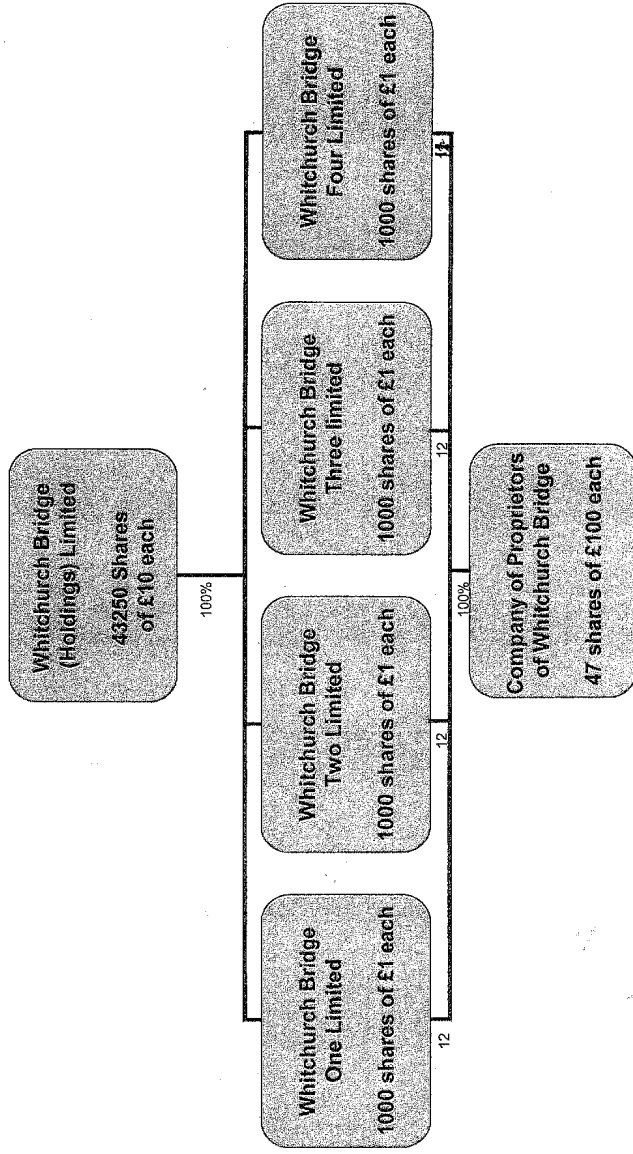
This Memorandum has highlighted that over the years the Company has not set aside sufficient reserves to meet the cost of reconstruction of the bridge in 2013 and furthermore has been imprudent in paying dividends to shareholders, particularly during the last five years, when it has been clear that the estimated cost of reconstruction of the Bridge has rapidly escalated. It has to be mentioned that the total amount of dividends paid in the last five years, which amounts to £ 181K is relatively small when measured against the escalation of estimated replacement costs during that period of £1.75 million. This escalation of costs is the principal reason that has necessitated the Committee to seek an increase in tolls. Nevertheless it seems unreasonable to seek to double the tolls in these recessionary times and to expect the local community to contribute to the future profitability of the Company which will wholly accrue to shareholders.

It is not certain the extent to which the Committee has pursued alternative means of securing the future of the Bridge. These could include :-

- a) Maximising the borrowings. This will mean negotiating with potential lenders who will no doubt only provide by way of loans what the Company can repay having regard to its profitability and viability in future. The Committee may have already done this.*
- b) Asking shareholders to contribute possibly by way of a rights issue.*
- c) Issuing new shares to the public.*
- d) Maybe local residents should be approached to see if they would be prepared to acquire shares that provided them with a number of free or subsidised passages across the bridge. This could be beneficial to both parties and*
- e) A sale or passing over of the bridge to a Public Authority.*

*A.J.Kerevan FCA
26th May 2009*

Appendix 1 Whitchurch Bridge Group Structure



Appendix 2

The Company of Proprietors of Whitchurch Bridge
Summary of Profit and Loss Accounts for the years ended 30th June

	<u>2004</u> <u>£000</u>	<u>2005</u> <u>£000</u>	<u>2006</u> <u>£000</u>	<u>2007</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Turnover	183	204	246	267	266
Cost of sales	111	74	117	124	124
Gross profit	72	130	129	143	142
Administration expenses	60	56	78	80	172
Operating profit	12	74	51	63	(30)
Investment income	18	84	111	111	83
Other income	2	2	2	2	2
Profit on ordinary activities	32	160	164	176	55
Dividends	30	30	30	42	49
Retained profit transferred to reserves	2 =====	130 =====	134 =====	134 =====	6
Other gains Revaluation of toll house					17
					23 =====

Appendix 3

The Company of Proprietors of Whitchurch Bridge
Summary of Balance Sheets at 30th June

	<u>2004</u> <u>£000</u>	<u>2005</u> <u>£000</u>	<u>2006</u> <u>£000</u>	<u>2007</u> <u>£000</u>	<u>2008</u> <u>£000</u>
Tangible fixed assets	766	826	826	769	758
Investments	960	1,034	1,188	1,298	1,429
Total fixed Assets	<u>1,726</u> =====	<u>1,860</u> =====	<u>2,014</u> =====	<u>2,067</u> =====	<u>2,187</u> =====
Current Assets					
Stocks	1	2	5	43	57
Debtors	36	12	10	62	13
Cash at bank and in hand	59	103	23	57	35
	<u>96</u>	<u>117</u>	<u>38</u>	<u>162</u>	<u>105</u>
Less creditors falling due in one year	(92)	(117)	(58)	(100)	(140)
Net current assets	<u>4</u> =====	<u>-</u> =====	<u>(20)</u> =====	<u>62</u> =====	<u>(35)</u> =====
Total assets	<u>1,730</u> =====	<u>1,860</u> =====	<u>1,994</u> =====	<u>2,129</u> =====	<u>2,152</u> =====
Capital and reserves					
Share Capital	5	5	5	5	5
Share Premium	5	5	5	5	5
Revaluation reserve	264	264	264	264	282
Other reserves	1,456	1,586	1,720	1,855	1,860
	<u>1,730</u> =====	<u>1,860</u> =====	<u>1,994</u> =====	<u>2,129</u> =====	<u>2,152</u> =====

Appendix 4

Austin James Kerevan

Curriculum Vitae

Date of Birth 18th May 1935

Education 1945 to 1952 *The City School, Lincoln*

Training 1952 to 1958 *J Nicholson & Co Chartered Accountants, Lincoln*

National Service 1959 to 1961 *Royal Air Force*

Career 1961 to 1992 *Peat Marwick Mitchell & Co now KPMG*

 1961 to 1975 *London Office*

 1975 to 1992 *Senior partner Thames Valley Office*

Post career appointments held at various times

Chairman *West Berkshire Priority Care (NHS) Trust*

Chairman *The Abbey School, Reading*

Chairman *St. Andrew's Preparatory School, Upper Basildon*

Chairman *Berkshire Enterprise Agency*

Chairman *Rhos-Gwalieau Outdoor Education Trust*

Berkshire Red Cross *Trustee and Treasurer*

Bradfield College *Governor and Chairman of Development Committee*

Marbaix Group *Non executive director and Chairman of Pension Fund*

Universal Crop Protection Limited *Financial advisor*