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Dear Mr Barrowman,

## **A122 Lower Thames Crossing (Reference Number TR010032)**

### **Submission of additional information relating to funding**

- 1.1 This submission follows the letter issued by the Secretary of State on 5 February 2025 requesting relevant updated information relating to the funding of the A122 Lower Thames Crossing (the Project) following a speech by the Chancellor of Exchequer. This letter was made following a request to submit this information by the Applicant on 30 January 2025.
- 1.2 As set out by the Applicant in the letter of 30 January 2025, National Highways has been reviewing supplementary funding options for the Project. This submission provides information on two supplementary options which National Highways has identified as viable, as well as selected documents updated to provide information on these supplementary options.
- 1.3 No decision has been taken on the funding option to be pursued; this would be a matter for government to determine separately from the development consent decision<sup>1</sup>. The investment decision would be made in accordance with the Green Book (HM Treasury 2022).

### **Background**

- 1.4 During the early development of the Project a series of funding options were considered. The Summary Business Case, prepared to support the 2016 consultation, set out that both publicly and privately financed structures were considered viable. In the Statutory Consultation in 2018, National Highways (then Highways England) set out within the Guide to Consultation the proposed plan for the tunnel to be publicly funded and the approach roads, including the junctions, to be privately financed. In 2019 the Government reviewed all

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<sup>1</sup> The Applicant notes that this position reflects the position for funding for major infrastructure projects, see for example the Secretary of State's decision letter on the A12 Chelmsford to A120 Widening Scheme dated 12 January 2024 wherein the Secretary of State confirmed "...the Secretary of State is satisfied that funding decisions are subject to a separate process in any event and the Secretary of State has not solely relied on the Applicant's assessment of the BCR when considering the impacts of the Proposed Development or in reaching his conclusions on the overall planning balance."

proposals for private finance and determined that the Project would be fully publicly funded. This assumption provided the basis for the preparation of the DCO application as submitted in 2022.

- 1.5 National Highways has been reviewing alternative funding options for delivering the Project in addition to the existing option of full public funding, and has identified two supplementary options. This document considers the implications of the two supplementary funding options on the DCO application.

## Funding models

- 1.6 The Applicant has identified two supplementary funding options which could viably deliver the Project using private financing, and a further iteration of the Funding Statement has been prepared to reflect those options. Including the full publicly funded option, there are now three funding models that are being put forward, as follows:
- a. full public funding under the Road Investment Strategy (**Full Public Delivery model**);
  - b. full public funding for the tunnels, with the connecting roads being delivered and funded by the private sector under Design, Build, Finance, Operate and Maintain (DBFOM) contract(s) (**Public Tunnel and DBFOM Roads model**); and
  - c. a regulated private entity model, under which private sector body finances, builds and operates the A122 Lower Thames Crossing in its entirety in perpetuity, subject to the oversight of an independent regulator (**Regulated Private Entity model**).
- 1.7 Under the Full Public Delivery model, the government provides funding through the Road Investment Strategy to National Highways to construct the A122 Lower Thames Crossing and then continues to provide funding through the Road Investment Strategy to operate the Project. Revenue from the road user charge goes to the government.
- 1.8 Under the Public Tunnel and DBFOM Roads model the government provides funding through the Road Investment Strategy to National Highways to construct the tunnel and then continues to provide funding through the Road Investment Strategy to operate the tunnel. Revenue from the road user charge goes to the government. One or more DBFOM contracts provide for construction and operation of the roads. These contracts are privately funded, and after opening of the roads would receive availability payments from the government to repay the cost of the investment over a period of time. With this model government funding would cover:
- a. Full delivery of the Tunnel;

- b. Pre-construction enabling works for the Roads (including utility diversions, developed scheme design, including initial detailed design of key elements, archaeology, ecology and work to deliver Requirements associated with these activities);
- c. Allowance for compensation payments in respect of compulsory acquisitions of land for the entire Project (Tunnel and Roads); and
- d. Procurement and management of the DBFOM Roads contract (including management of the interface risk between National Highways and the DBFOM).

1.9 Capital funding of the Public Tunnel and DBFOM Roads model would not be derived from user charging, as the tunnel funding would come from government funding of National Highways through the Road Investment Strategy and the roads funding would come from private investment raised by the DBFOM SPV. There would be no direct link between user charges and the government funding of the Tunnel or availability payments for the Roads.

1.10 Under the Regulated Private Entity model a regulated private entity would be set up, using private finance to construct and operate the road and tunnels. The regulated private entity would receive the road user charging revenue arising from both the A122 Lower Thames Crossing and the Dartford Crossing and use this to cover the construction, operation and maintenance costs. With this model government funding would cover:

- a. Pre-construction enabling works for the entire Project up to Regulated Private Entity financial close (including utility diversions, developed scheme design, including initial detailed design of key elements, archaeology, ecology and discharge of Requirements);
- b. Allowance for compensation payments in respect of compulsory acquisitions of land for the entire Project (Tunnel and Roads); and
- c. Delivery of the Regulated Private Entity model, including the set-up, transfer of assets into and sale of the Regulated Private Entity model, and establishment of the independent economic regulator.

## Road user charging

1.11 During the development of the Project, assumptions relating to the road user charging were made as follows (as detailed in the Combined Modelling and Appraisal Report [[APP-518](#)]):

- a. that the same charges apply at both the A122 Lower Thames Crossing and the Dartford Crossing;

- b. that the cost of these charges to road users stay constant in real terms over the Project's appraisal period (starting from a 2014 base date).
- 1.12 With both the Full Public Delivery model and the Public Tunnel and DBFOM Roads model there is no link between the road user charge and the funding for the Project. In both models, the revenue from the road user charge goes to the government, and there would be no change to the road user charging assumptions as set out in paragraph 1.11.
- 1.13 Under the Regulated Private Entity model the same charges would apply at both the A122 Lower Thames Crossing and the Dartford Crossing, per the assumption at paragraph 11.1(a) above. The inflationary assumption at paragraph 11.1(b) above would also apply. VAT has been assumed to be applicable to user charges under this model. The Applicant has accounted VAT in the forecast charge for this model (i.e. there is no material change in the total forecast cost to the end user as compared with Combined Modelling and Appraisal Report [[APP-518](#)]). On that basis there would be no change to the forecast road user charge applicable to cars. VAT applicable to HGVs and LGVs would be added to the user charge, however VAT-registered users would be able to recover the VAT and so the cost to these users would remain unchanged, consistent with the road user charging assumptions set out in paragraph 1.11.
- 1.14 Two groups of users are treated differently by the VAT regime:
- a. A small number of HGVs and LGVs are owned by users who are not VAT-registered and therefore are unable to recover VAT; and
  - b. Employers business trips made by car would be able to recover VAT.
- 1.15 HGVs and LGVs owned by users who are not VAT-registered are a minor component of these vehicle users. The travel decision making by these users is highly inelastic (i.e. the travel decisions do not change significantly in response to price changes), as evidenced in Table 10.29 of the Combined Modelling Appraisal Report - Appendix B - Transport Model Package [[APP-520](#)]. Accordingly, this would have a negligible impact on traffic flows.
- 1.16 Employee trips made by car on behalf of a business that is VAT-registered could reclaim the VAT reducing the cost of the trip to the business. The employers business journey purpose has an inelastic price elasticity. As shown in Table 10.29 of the Combined Modelling Appraisal Report - Appendix B - Transport Model Package, it has the most inelastic of car journey purposes. This is because the choice of destination for business trips is less discretionary than for commuting and other trips. In addition, the charge is a minor aspect of the decision to travel across the River Thames, and the charge is a minor component of the effective cost of the journey to the employer. The value of time for car employers business trips is the highest value of time used in the variable demand modelling, which uses the value of time by vehicle type and journey purpose set out in the DfT TAG databook. This makes the charge at the

Dartford Crossing / the A112 Lower Thames Crossing a minor proportion of the total time/cost of a journey, which further reduces the impact of a minor change in the charge on the total time/cost of the journey.

## Implications for the Development Consent Order Application

- 1.17 The Development Consent Order application has been reviewed against the implications of each of the funding options, and the following updates have been identified as necessary to reflect the three funding models identified by National Highways in this submission.

### Funding Statement

- 1.18 The Funding Statement at the point of application [[APP-063](#)] sets out that the Project would be funded through government funding. While in all scenarios the land acquisition would be funded by government, in both the Public Tunnel and DBFOM Roads model. and the Regulated Private Entity model there would be a component of private finance within the funding. An updated Funding Statement (**Document Reference 4.3 [Revision 2.0]**) has been prepared which sets out the different scenarios.
- 1.19 The estimated capital cost for the Full Public Delivery model provided in the Funding Statement [[APP-063](#)] at the point of application comprised a base cost, representing the costs of work to build the Project expressed in 2019 Q1 real terms prices, with additional costs for Project risk, uncertainty, non-recoverable Value Added Tax, portfolio risk and inflation, in accordance with National Highways' capital cost estimating process for Major Projects (Highways England, 2018a). The cost for the Full Public Delivery model has been updated in the Funding Statement (**Document Reference 4.3 [Revision 2.0]**) to account for changing inflation and delivery costs arising from the two year rephasing of the works announced by the Written Ministerial Statement (9 March 2023) and is reflected in a revised cost for the Full Public Delivery model. This updated cost lays within the P10 and P90 costs reported in chapter 11 of the Combined Modelling and Appraisal Report - Appendix D - Economic Appraisal Package: Economic Appraisal Report [[APP-526](#)]. The increase in cost is primarily due to inflation. Inflation will also lead to an increase in the benefits of the Project, and the inflation increased revenue from the road user charge would reduce the increase in the costs. The Applicant is therefore confident that there would therefore be no change in the Value for Money banding reported for the Full Public Delivery model in the Economic Appraisal Report. In addition, there would be no material or significant change in the Benefit to Cost Ratio

(BCR) for the Full Public Delivery model as set out in the Economic Appraisal Report<sup>2</sup>.

- 1.20 The Public Tunnel and DBFOM Roads model and the Regulated Private Entity model adopt the same costs as the updated Full Public Delivery model. They also include some additional costs involved in establishing the private sector models, as set out in Chapter 2 of the updated Funding Statement (**Document Reference 4.3 [Revision 2.0]**). Project benefits relating to journey time savings and agglomeration for the private sector models would be the same as for the Full Public Delivery model, and so would also equally rise as a result of inflation compared to the benefits reported in the Economic Appraisal Report.

### **Road User Charging Statement**

- 1.21 The DCO application included a Road User Charging Statement [[APP-517](#)]. The document sets out the purpose of the road user charge, to enable the effective operation of both the A122 Lower Thames Crossing and the Dartford Crossing, as well as the wider strategic road network and local road network. The application version of the Road User Charging Statement was predicated only on the Full Public Delivery model. It further states that charging revenue would not directly fund the A122 Lower Thames Crossing, going to the government and hence distributing the cost of the Project between the taxpayer and users. This remains valid for the Public Tunnel and DBFOM Roads model. In the Regulated Private Entity model private funding scenario the road user charge would directly fund the project. An updated version of the Road User Charging Statement (**Document Reference 7.6 [Revision 2.0]**) has been prepared which sets out the different scenarios.

### **Transport Assessment and Environmental Impact Assessment (including the Environmental Statement and the Habitat Regulations Assessment)**

- 1.22 The road user charging assumptions, as set out in paragraph 6.2.3 of the Combined Modelling and Appraisal Report [[APP-518](#)], provide an important input to the transport modelling (the Lower Thames Area Model) developed for the Project. This modelling, also reported in the Combined Modelling and Appraisal Report, provides one of the inputs for the development of the design of the Project, and informs many assessments within the application. Specifically, the transport modelling has informed:
- a. The transport assessment, as reported in the Transport Assessment [[REP4-148](#), [REP4-150](#) and [REP4-152](#)]
  - b. The operational air quality assessment, as reported in Chapter 5 – Air Quality of the Environmental Statement [[APP-143](#)], which considers

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<sup>2</sup> The Applicant notes that the Funding Statement also sets out additional costs associated with the funding models of the Public Tunnel and DBFOM Roads model and the Regulated Private Entity model. An investment decision to proceed with one of the alternative funding models would be in accordance with the Green Book (HM Treasury 2022).

emissions associated with the forecast traffic on the new road, and forecast changes in traffic flows on existing roads

- c. The landscape and visual assessment, as reported in Chapter 7 - Landscape and Visual of the Environmental Statement [[REP9-118](#)], which considers the effects of traffic on the landscape and the effects of traffic and noise on the Kent Downs Area of Outstanding Natural Beauty (now renamed Kent Downs National Landscape)
- d. The operational noise assessment, as reported in Chapter 12 – Noise and Vibration of the Environmental Statement [[APP-150](#)], which considers noise associated with the traffic on the new road, and changes in traffic flows on existing roads
- e. The health and equalities impact assessment, as reported in the Health and Equalities Impact Assessment [[REP7-144](#)], which considers:
  - i. adverse and beneficial impacts during operation on accessibility by private vehicle measured to a range of destination types including education (primary and secondary schools, Special Educational Needs establishments, further education colleges and universities), healthcare facilities (hospitals, medical practices), railway stations and shopping facilities (supermarkets and town centres)
  - ii. the potential separation of residents from community facilities and the services they use within their community (severance) as a result of traffic flows arising from the Project
  - iii. the impacts of the Project on available jobs (for workers) and available workers (for employers)
- f. The population and human health assessment, as reported in Chapter 13 – Population and Human Health of the Environmental Statement [[APP-151](#)], which considers:
  - i. changes in amenity/quality of life for local residents and businesses arising from the findings within Chapter 5: Air Quality; Chapter 7: Landscape and Visual; and Chapter 12: Noise and Vibration of the Environmental Statement
  - ii. severance as a result of changes in access or traffic flows, including severance of communities from community, education, recreational and healthcare facilities as identified by the findings of the Health and Equalities Impact Assessment

- g. An Environmental Statement Addendum [[REP10-024](#)] provides updates to the assessments set out within the Environmental Statement
- h. The Habitat Regulations Assessment, as reported in 6.5 Habitats Regulations Assessment - Screening Report and Statement to Inform an Appropriate Assessment [[APP-487](#)], which considers:
  - i. Thames Estuary and Marshes Ramsar site and Thames Estuary and Marshes SPA
    - i. Changes in air quality during operation
    - ii. Change in noise and vibration during operation from the new road and Muckingford Road within the functionally linked land north of the River Thames, and
    - iii. Changes in visual disturbance during operation arising from vehicles in eyeline
  - ii. Epping Forest SAC
    - i. Changes in air quality during operation
  - iii. North Downs Woodlands SAC
    - i. Changes in air quality during operation

1.23 For both the Full Public Delivery model and the Public Tunnel and the DBFOM Roads model there is no link between the funding model and the road user charge. As such, the road user charging assumptions that informed the transport modelling remain valid, and as a consequence, the environmental and transport assessments identified above remain unchanged by any decision to choose either of these funding models.

1.24 For the Regulated Private Entity model the assumptions informing the proposed road charging regime as set out in the Road User Charging Statement remain valid, whereby the charges at both crossings would not need to increase in real terms to provide funding for the project. As set out above as paragraph 1.13 to 1.16, the impact of the proposed changes to VAT on the forecast traffic flows on the network would be negligible and, in line with the principles of proportionate appraisal, would not merit the re-running of the Applicant's traffic model and the assessments that use the traffic flows forecast by the traffic model. The identified assessments within the Environmental Impact Assessment and the Transport Assessment would therefore remain valid were the Regulated Private Entity model selected, leading to no material change in the reported likely significant environmental or transport effects.

## Development Consent Order



- 1.25 The draft Development Consent Order (dDCO) (**Application Document 3.1 [Revision 20.0]**) also secures a number of commitments (including, but not limited to, commitments secured in the Stakeholder Actions and Commitments Register (under article 65), mitigation measures secured in control documents such as the Code of Construction Practice, outline Landscape and Ecology Management Plan, Traffic Management Plan for Construction, and Framework Construction Travel Plans pursuant to Schedule 2 to the dDCO), and requirements for additional approvals. Under the Public Tunnel and DBFOM Roads model and the Regulated Private Entity model, National Highways would, with the Secretary of State's consent, transfer the benefit of relevant provisions and powers to the entity which would implement the Project pursuant to Article 8(1).
- 1.26 The Applicant would highlight that article 8(3) specifies that "*the exercise by a person of any benefits or rights conferred in accordance with any transfer or grant under paragraph (1) is subject to the same restrictions, liabilities and obligations as would apply under this Order if those benefits or rights were exercised by the undertaker*". This ensures that all the commitments will continue to be met and adhered to in this scenario. In order to provide additional clarity and assurance in this context, the Applicant has amended this provision to make clear that references to National Highways in relevant control documents are to be construed as references to a transferee under article 8. An updated draft Development Consent Order (**Application Document 3.1 [Revision 20.0]**) has been prepared to include these changes, and a summary of the changes is provided below as Annex A.
- 1.27 The draft Development Consent Order (DCO) has been reviewed, and revised to make express, and clarificatory, provision for the Secretary of State to transfer the power to impose road user charges under Article 45 to a person or body, which supplements and aligns with the existing general power to transfer functions under Article 8.
- 1.28 Such a transfer could be used as part of the process to implement the Regulated Private Entity model, where a private entity would operate the charges at the A122 Lower Thames Crossing under the DCO. As drafted, the provision would allow that entity to impose charges in accordance with Schedule 12 (which includes provisions relating to charging being aligned to the particular charging regime in place at the Dartford Crossing, discounts and exemptions, as well as enforcement).
- 1.29 In addition, in order to ensure that if development consent is granted the DCO is not incompatible with any primary legislation which would be required to enable the Regulated Private Entity model, references have been inserted in Article 53 and Schedule 12 to the prospective legislation.

Yours sincerely

Dr Tim Wright  
Head of Consents – Lower Thames Crossing

## Annex A - Summary of changes to the dDCO

Provision of dDCO	Update
Article 8	Updated to provide assurance that references to National Highways in control documents would be construed as references to another entity which had the powers transferred to them.
Article 45	Updated to include express provision to enable the Secretary of State to transfer the power to charge under the DCO. Further provision is included ensuring that such a transfer would be publicised, and ensuring the entity could not transfer that power without the consent of the Secretary of State.
Article 53(5)	Article 53(5) ensures that the Secretary of State's powers under the 2000 Act are not prejudiced. This provision has been updated to include reference to any other enactment which relates to the imposition of road user charging to ensure compatibility between the DCO and any primary legislation which comes forward.
Schedule 12 (Paragraph 1(1) and (2))	These provisions have been updated to include reference to any other enactment which relates to the imposition of road user charging to ensure compatibility between the DCO and any primary legislation which comes forward.
Schedule 16 (Part 4)	Update to the revision number for the Road User Charging Statement on the basis that an updated version has been submitted alongside this submission