

Report to:	Tamar Bridge & Torpoint Ferry Joint Committee	
Date:	3 December 2021	
Title:	Future Financing	
Portfolio Area:	Transport	
Divisions Affected:	All	
Local Member(s) briefed:	N/A	
Relevant Scrutiny Committee: Economic Growth and Development		
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Approval and clearance obtained:	Y	
For Cabinet and delegated executive decisions only		
Key decision? (≥£500k in value or significant effect on communities in two or more electoral divisions)	N	
Published in advance on Cabinet Work Programme?	N	
Urgency Procedure(s) used if 'N' to Work Programme?	N	
Date next steps can be taken	Recommendations: 3 December 2021 Recommendations to Council via the Cabinets of the Parent Authorities: 9 February 2022 & 23 February 2022	

	for Cornwall Council 11 January 2022 & 24 January 2022 for Plymouth City Council
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Recommendations:

It is recommended THAT:

1. Members note the current financial position and the associated assumptions and uncertainties.
2. A public consultation is undertaken in respect of the Joint Committee's preferred toll revision option in a format to be agreed by the Joint Chairs in consultation with Service Directors and the General Manager.
3. Officers bring further reports to the next meeting of the Joint Committee summarising the consultation feedback.
4. The Joint Committee agrees a budget of £60,000 for an external consultancy to undertake a review of the effectiveness, efficiency and governance of the undertaking, that will inform the forthcoming Strategic Plan.
5. The Joint Committee agrees a budget of £20,000 to fund a property assessment of land held by the undertaking.
6. Service Directors and General Manager to agree the brief and terms of reference for the external consultancy and property assessment, in consultation with the Joint Chairs and for Cornwall Council's Service Director to lead the procurement of these commissions in line with its contract procedure rules.
7. Officers bring reports to future meetings in relation to:
 - progress of the consultancy on effectiveness, efficiency and governance of the undertaking
 - potential for increasing revenue sources other than tolls
 - long term capital finance profiles and related future strategy
 - progressing authority to index tolls and improve governance structure

- reflecting the authorities' environmental strategies within the toll structure

Recommendation to Council via the Cabinet of Each

Parent Authority:1. The Joint Committee's preferred option for toll revision taken from the options in section 2 of the report be approved. Such approval to be subject to the Joint Committee making a decision whether or not to implement the preferred option following consideration of the public consultation responses. The Joint Committee being given authority to make the implementation decision.

1 Executive Summary

1.1 This report provides an update on the undertaking's future financial position and recommends that a toll revision be proposed to the parent authorities full Council's via respective Cabinets in accordance with the Joint Committee's Terms of Reference.

1.2 The toll revision options available to Members set out in Section 2 of the report below comprise:

- uniform 30% increases on both TAG and cash tolls for all user classes
- uniform 35% increases on both TAG and cash tolls for all user classes
- hybrid 35% cash/30% tag increases for all user classes

1.3 The report also recommends further action on funding a property assessment and appointment of a consultant to undertake a review of the organisation to inform the Strategic Plan.

2. Purpose of Report and Key Information

Background

2.1 At its meeting on 11 September 2020 the Joint Committee resolved to recommend the following two-step toll increase to Councils via Cabinets:

- tolls paid via TamarTag to increase by 20% from January 2021
- tolls paid by cash to increase by 20% from January 2022

- 2.2 Public consultation was undertaken in October 2020 on the above proposed increases.
- 2.3 On 19 November 2020 it was confirmed that funds would be paid by the UK Government in the amount of £1.64m to Cornwall Council and to Plymouth City Council (£0.82m each) in respect of the Tamar Bridge and Torpoint Ferry undertaking (the Joint Undertaking) to represent the sales, fees and charges income compensation for the period April to July 2020, and ongoing support until March 2021 was also confirmed. These further tranches amounted to £1.44m, such that support equated to approximately 65% of lost income compared to original budget. It was subsequently confirmed that a similar level of support will be provided until the end of June 2021, with calculations of loss during this first quarter of the current financial year based on pre-pandemic 2019/2020 budgets.
- 2.4 As a result of the external support, the governance process for approving the changes to tolls was halted, so while Cornwall Council's Cabinet had by 19 November already supported the proposal, neither parent authority's Full Council was asked to approve it.
- 2.5 At its meeting on 18 December 2020 the Joint Committee resolved that a workshop should be held in January 2021 to review the findings of the public consultation and review the financial position. The workshop was subsequently held on 29 January 2021 attended by the majority of Members and the workshop presentations were presented to the remaining two Members on 9 February 2021. At the workshop Members were updated on the ongoing effects of the pandemic and the resulting financial position, and various options were discussed to address the situation.
- 2.6 At the Joint Committee meeting on 12 March 2021 it was resolved that the decision on any future toll increases be deferred until the scheduled June meeting of the Joint Committee where an updated report and updated intervention options would be presented.
- 2.7 The June 2021 meeting agreed that a further workshop should take place to provide Members with greater detail of the financial position and the options available to stabilise the organisation's finances. That workshop took place on 23 July 2021 when discussions covered:
- Section 151 Officers' commentary on the financial position of the undertaking and the difficulty the parent authorities would have in funding a deficit position should it arise. In addition, it was clearly stated that the parent authorities expect the joint undertaking to have exhausted all options available to it, before requiring revenue support from them.
 - financial models anticipating full depletion of reserves during 2022/23

- the potential for increasing income from secondary sources and asset lease-back
- earlier reviews of expenditure and the related impact on service provision of significant cost reductions
- organisational review
- the ongoing discussions with the Department for Transport (DfT)
- toll revision

The workshop provided no clear indication of a preferred or consensus approach to addressing the forecast deficit position, other than the pursuit of funding from DfT.

2.8 At the subsequent Extraordinary Meeting of 19 August 2021, it was resolved that:

- officers pursue mechanisms for RPI increases of tolls
- a consultancy brief be agreed and consultant appointed to review the viability of the current business and options for closing the financial gap to report to an Extraordinary Meeting in early December 2022
- an advisory sub-group be established to identify commercial opportunities.

2.9 At the meeting of the Joint Committee on 1 October 2021 Members were updated on progress on the items set out in para 2.8 above. Subsequent to that meeting the appointed consultants withdrew and attempts to engage another consultant in the very limited timeframe then available have been unsuccessful.

2.10 On 24 August 2021 Baroness Vere of Norbiton, Minister for Roads, Buses and Places wrote to the Portfolio Holders in respect of their letter to her dated 9 July 2021. Her letter stated that she did not agree to National Highways (formerly Highways England) contributing to the cost of maintenance of the Bridge.

2.11 Based on discussions with Joint Chairmen and Portfolio Holders, a further workshop was held on 5 November in an effort to establish a consensus or majority view from Members on one or more viable options to resolve the forecast deficit positions. Some Members had raised the possibility of local discounts but officers considered that such preferential arrangements would not be permissible under the Tamar Bridge Acts. After extensive discussion on a range of elements of the financial modelling and forecasting there was no full consensus on a remedial option, but the continued pursuit of RPI indexation

through legislation was fully supported. The continued consideration of discounted tolls for low emissions vehicles was also widely supported.

Consultant Review

- 2.12 Aecom effectively withdrew from the consultancy commission on 13 October 2021, and officers subsequently attempted to engage PwC without success largely because of the nature and scope of the review and the very limited time remaining to deliver a report.
- 2.13 Although the opportunity for input from a consultant in time for this meeting has been lost, it is proposed that officers continue to progress appointment of a consultant to report in respect of the following in relation to the undertaking:
- assessment of the effectiveness, efficiency and governance
 - potential for increasing revenue sources other than tolls
 - long term capital finance profiles and related future strategy
 - progressing authority to index tolls and improve governance structure
 - reflecting the authorities' environmental strategies within the toll structure

It is recommended that such a consultancy is commissioned early in 2022 to inform the development of a Strategic Plan for the undertaking in the first half of 2022. The consultancy would also serve as external scrutiny to support an application to increase tolls and provide evidence for any associated public inquiry that might be held. It is recommended that a budget of £60,000 be approved for this consultancy, that Service Directors and the General Manager agree the brief and terms of reference for the work, in consultation with the Joint Chairs and that procurement is delegated to Cornwall Council's Service Director to commission in line with Cornwall's contract procedure rules.

Advisory Sub-group on Assets and Income Generation

- 2.14 An advisory sub-group consisting of Joint Chairs, a Committee Member from each Authority and officers was convened on 21 September 2021.
- 2.15 The sub-group considered a range of short-term commercial options for each site with a consensus that any additional income achieved would not have a material effect on current finances.

- 2.16 Sub-group Members considered that identified two areas of land may have commercial value that may be realised in the longer-term through sale. Members also took the view that development opportunities were available for the bridge office and car park site.
- 2.17 Following subsequent consultations with Cornwall Council Property Service, it is recommended that the Joint Committee appoints an external consultant to provide the Committee with a well scoped property assessment of the sites leading to values and timescales when the value could be unlocked. It is recommended that a budget of £20,000 be approved to fund such an exercise and similar to the wider Consultancy review, that Service Directors and the General Manager agree the brief and terms of reference for the work, in consultation with the Joint Chairs and that procurement is delegated to Cornwall Council's Service Director to commission in line with Cornwall's contract procedure rules.
- 2.18 It is anticipated that the report will be available before the March 2022 Meeting of the Joint Committee.

Income and Expenditure Modelling

- 2.19 Since the beginning of the pandemic officers have been closely monitoring traffic levels and income and have been maintaining a contemporary budget forecasting model. The model predicts that without intervention there will be a limited reserve at the end of the current financial year and increasing accumulating deficits in future years.
- 2.20 The core model assumes bridge traffic and toll income levels of 90% of pre-pandemic levels for the current financial year and throughout the model up to April 2025. The model assumes bridge traffic volume return to 100% of pre-Covid traffic levels from April 2025 and there remains some uncertainty that this is a conservative approach. At the ferry, traffic levels to September 2022 neared 100% of pre-pandemic levels and the model therefore now incorporates a return to pre-pandemic traffic volumes and toll income from the second half of the current financial year. Whilst there is a high level of uncertainty with any model following the pandemic, a 90% traffic model was considered cautious and in respect of bridge volumes has proven quite accurate in the current year to date. Traffic levels at the bridge remain slightly below 90% and at the Ferry nearing 100%, with the overall combined traffic level approximately 90%.
- 2.21 The core expenditure modelling has been updated to incorporate increased levels of inflation – 3.5% for 2022/23 and 3% thereafter –

to reflect the current climate. Recent procurement exercises have illustrated increasing inflation.

2.22 It is important to recognise the sensitivity of the modelling to external variances that will be outside the undertaking's control and the impact of such variances on the financial position for example:

- each 1% variance in traffic flow from the forecast 90% would result in income changing by approximately £0.150m per annum
- each 1 month delay in getting a toll order (estimated Jan 2023) to raise cash tolls would result in the loss of approximately £0.150m based on a 30% increase
- we are already seeing significant inflation in prices of some goods and services in excess of 3.5%. The Office of National Statistics has released the inflation figures for October 2021, with CPI recorded at 4.2% and RPI at 6.0%. The Bank of England have said that they expect CPI to increase to approximately 5% in the early part of 2022, before reducing over the longer term.

Reserves Position

2.23 The table below records the latest reserves forecasts without intervention, and which have also been reflected in graphical form at Appendix 1:

	end of year reserves position				
	2021/22	2022/23	2023/24	2024/25	2025/26
do nothing	+£1.316m	-£1.016m	-£3.686m	-£6.949m	-£10.166m

Toll Revision

2.24 From previous reports and workshops Members are aware of the forecast deficit position that would occur at the end of financial year 2022/23 without intervention, and that the position is forecast to deteriorate thereafter. Members are also aware that any end of year deficits revert by default to the parent authorities and they have both given a clear message that they have no budget provision to cover any deficit arising from the undertaking.

- 2.25 In addition the position set out by Baroness Vere was very clear and at present there is currently no prospect of external funding support from Central Government.
- 2.26 The workshops and previous meetings have not generated any consensus or majority view on any viable approach to adequate income generation other than increasing both tag and cash tolls. Officers have therefore remodelled the previous proposal of 30% uniform increases (tag and cash by equal percentage) and also two other options as detailed below.

Uniform 30% Increase Option

- 2.27 Officers remain of the view set out at the August meeting of the Joint Committee, that there is no viable alternative to intervention in the form of toll revision. At the workshop held on 5 November 2021 using initial drafts of updated budgets, officers illustrated the updated impact of the 30% increase in tolls if implemented in stages – tag tolls increased in April 2022 and cash tolls increased in January 2023. Further work finalising budget proposals has led to a slight improvement on the position illustrated at the workshop, for a large part as a result of reprofiling of capital expenditure for the Bridge Rocker Replacement project, shifting the majority of expenditure from 2022/23 to the subsequent two financial years. The latest budget figures and forecasts are included in the model illustrated graphically at Appendix 2.

Uniform 35% Increase Option

- 2.28 It can be noted that while the 30% model does not result in forecast deficits, the reserve position remains below £1m until the end of financial year 2023/24 – well below the previously accepted minimum reserve level of £2m. At the workshop on 5 November 2021, Members queried the resilience of the '30% increase' model and they were advised that the position remained very tight, particularly in view of the significant assumptions and risks that are inevitably inherent in the modelling – see previous commentary.
- 2.29 An option for a 35% increase has therefore also been modelled with the same staged implementation dates as the 30% option and this is illustrated at Appendix 3. This illustrates the additional resilience offered by the additional 5% increase.

Hybrid 35%cash/30% tag Increase Option

2.30 An alternative option has also been modelled that lies between the above two options – 30% increase on tag tolls and 35% increase on cash tolls and again with the same implementation dates as the previous two options. This option offers an intermediate level of resilience and also in principle reflects the preference indicated by some Members to moderate the effect of increases on local users, who make up around 90% of tag account holders. This option is illustrated at Appendix 4.

Resilience Comparison

2.31 The forecast annual outturn positions and cumulative reserves positions generated by the above three models are set out in the tables below together with the 'do nothing' option:

option	annual deficit/surplus				
	2021/22	2022/23	2023/24	2024/25	2025/26
do nothing	-£1.169m	-£2.332m	-£2.670m	-£3.262m	-£3.218m
30% increase	-£1.169m	-£0.295m	+£1.017m	+£0.425m	+£0.827m
35% increase	-£1.169m	+£0.045m	+£1.631m	+£1.039m	+£1.502m
35%/30% hybrid	-£1.169m	-£0.211m	+£1.352m	+£0.760m	+£1.195m

option	end of year reserves position				
	2021/22	2022/23	2023/24	2024/25	2025/26
do nothing	+£1.316m	-£1.016m	-£3.686m	-£6.949m	-£10.166m
30% increase	+£1.316m	+£1.021m	+£2.038m	+£2.463m	+£3.290m
35% increase	+£1.316m	+£1.361m	+£2.992m	+£4.031m	+£5.333m
35%/30% hybrid	+£1.316m	+£1.105m	+£2.458m	+£3.218m	+£4.413m

Toll Revision Recommendation

- 2.32 It is vital that Members give consideration to the resilience issues and forecast risks and recognise the need to isolate the parent authorities from deficit to a reasonable degree.
- 2.33 In order to achieve an appropriate level of financial resilience it is recommended that Members determine a preferred option for toll revision and recommend that option to the parent authorities' Full Councils via their respective Cabinets.
- 2.34 Whichever option is preferred, in all cases the proposed increases could potentially be moderated if the evolving financial position is significantly better than forecast.

Indexation of Tolls

- 2.35 The issue of indexation of tolls has been discussed at some length at workshops and in Joint Committee Meetings. As part of the undertaking's governance review, specialist Counsel's opinion has been sought on the viability and timeline for gaining the powers to increase tolls in line with increases in the Retail Price Index that are already in place at other major estuarial crossings. It is anticipated that a verbal report can be provided to this meeting.
- 2.36 To illustrate the potential effect of indexation, the graph at Appendix 5 shows its effect on the 30% uniform increase option, assuming a commencement date of April 2025. The indexation used in this case arbitrarily mirrors the inflation rates used in expenditure modelling.

Public Consultation

- 2.37 The public and key stakeholders were consulted in 2018 before a final recommendation to increase tolls was made to Cabinets. A similar exercise was again undertaken in October 2020 prior to agreement on making the recommendation to increase tolls by 20% eventually abandoned following confirmation of temporary Central Government support.
- 2.38 The previous exercises involved selecting two appropriate dates to physically distribute leaflets and questionnaires to those paying cash and other non-tolled users with those TamarTag customers travelling on the day contacted electronically or by post where there was no e-mail address. Key stakeholders were contacted individually. The questionnaire and leaflet used for the 2020 consultation were attached to the Future Financing Report presented to the August Meeting of the Joint Committee.

- 2.39 It is recognised that there is merit in following a similar process of consultation to allow direct comparison of responses. It is however also likely that some user weariness and response fatigue could affect responses and response rates to a third very similar exercise within a three year period. To ensure that proposed timelines can be met, it is essential that consultation responses are reported to TBTFJC at its March 2021 meeting. Managers have begun exploratory discussions with suppliers about adapting the process to reflect time available and to promote participation.
- 2.40 It is recommended that public consultation is undertaken in respect of the preferred toll revision option in a format to be agreed by Joint Chairs in consultation with Service Directors and the General Manager.

3. Benefits for Customers/Residents

- 3.1 Appropriate management of finances and budget monitoring ensures that appropriate resource is available for the operation, maintenance and improvement of crossings which form key elements of the local transport network which is essential to the sustainable economic and social development of the region for the benefit of residents.
- 3.2 The retention of the self-funding principle of the crossings removes the potential negative impact on the budgets of the parent authorities.

4 Relevant Previous Decisions

- 4.1 On 11.09.20 the Joint Committee resolved to recommend to the Full Council's of the Parent Authorities via their Cabinets a two step toll increase. [Agenda for Tamar Bridge and Torpoint Ferry Joint Committee on Friday, 11th September, 2020, 10.00 am - Cornwall Council](#)
- 4.2 On 04.11.20 the Cabinet of Cornwall Council approved the recommendation to increase the toll subject to the outcome of the public consultation. [Agenda for Cabinet on Wednesday, 4th November, 2020, 10.00 am - Cornwall Council](#)
- 4.3 On 18.12.20 the Joint Committee resolved that a workshop should be held in January 2021 to review the findings of the public consultation and review the financial position. [Agenda for Tamar Bridge and Torpoint Ferry Joint Committee on Friday, 18th December, 2020, 10.00 am - Cornwall Council](#)
- 4.4 On 12.03.21 The Joint Committee resolved that the decision on any future toll increases be deferred until the scheduled June meeting of the Joint Committee where an updated report and updated intervention options would be presented. [Agenda for Tamar Bridge and Torpoint Ferry Joint Committee on Friday, 12th March, 2021, 10.00 am - Cornwall Council](#)

- 4.5 On 11.06.21 the Joint Committee resolved that a further workshop should take place to provide Members with greater detail of the financial position and the options available to stabilise the organisation's finances. Agenda for Tamar Bridge and Torpoint Ferry Joint Committee on Friday, 11th June, 2021, 10.00 am - Cornwall Council
- 4.6 On 19.08.21 the Joint Committee resolved to instruct consultants to review the undertaking, pursue indexation of tolls and set up an advisory group. Agenda for Tamar Bridge and Torpoint Ferry Joint Committee on Thursday, 19th August, 2021, 10.00 am - Cornwall Council
- 4.7 On 01.10.21 the Joint Committee were provided with updates on the progress of the above issues since the last meeting. Agenda for Tamar Bridge and Torpoint Ferry Joint Committee on Friday, 1st October, 2021, 10.00 am - Cornwall Council

5 Consultation and Engagement

- 5.1 The position has been discussed at Member/officer workshops on 29 January 2021, 23 July 2021 and 5 November 2021, and at the Joint Committee meetings held in 11 June 2021, August 2021 and October 2021.
- 5.2 The parent authorities views on reserve deficit support have been and continue to be explored in meetings with finance officers and other key officers.
- 5.3 The parent authorities have approached Central Government for support funding and further correspondence with Ministers has been undertaken. Officers have engaged with DfT officials to pursue long-term support and provide further clarification and Ministers have provided Central Government's position on support.
- 5.4 Joint Chairmen and Portfolio Holders are continuing to lobby MPs and Ministers for central government support.

6 Financial implications of the proposed course of action/decision

- 6.1 Any of the proposed courses of action to increase the toll, will generate adequate income to support the delivery of the service, and provides a level of resilience against the risks inherent in forecasting, thereby reducing the risk of a deficit reserves position.
- 6.2 If the recommendation is to do nothing and therefore there is no increase in the toll income, then the parent authorities will need to make allowance for the necessary revenue support within their relevant budgets based on a 50:50 basis of the reserve deficit at the end of each financial year.

7 Legal/Governance Implications of the proposed course of action/decision

- 7.1 The Parent Authorities are required to fund any end of year reserve deficit position of the undertaking.
- 7.2 Recommendations to modify toll or discount level have to be endorsed by Cabinets and approved by Full Councils. The recommendation to the Full Councils of the parent authorities via the respective Cabinets, is subject to the outcome of the public consultation exercise.
- 7.3 Toll revision requires that the parent authorities follow the procedures contained in the Transport Charges &c. (Miscellaneous Provisions) Act 1954. As set out in the report, it is intended that the proposed course of action should run in parallel with the active pursuit of indexation of toll levels through new or amended legislation..

8 Risk Implications of the proposed course of action/decision

- 8.1 Risk implications remain largely unchanged from those reported to the August meeting but 3 months on they are now heightened by the associated delay in the schedule for toll revision and imminent governance deadlines. The table below summarises the risks associated with the recommended course of action and also repeats the risk of the 'do nothing' option:

Risk	Consequence	Mitigation
no intervention action is taken to correct the anticipated deficit	deficit budget is rejected by Cabinets/Councils	tag discount greatly reduced or removed until a toll order is approved
income estimates are too optimistic (inc possible further lockdowns, delay in getting toll order approved, failure to get toll order approved)	financial resilience reduced and threat of deficit position for parent authorities	continuous monitoring and stress testing through modelling lower income – if necessary, reduce or remove tag discount, lobbying government
income estimates are too pessimistic	higher reserves levels than necessary or essential	continuous monitoring and stress testing through modelling higher income – if appropriate moderate authorised increases
additional funding is provided by Central Government (inc DfT/NH)	higher reserves levels than necessary or essential	if appropriate moderate authorised increases
unforeseen revenue or capital expenditure - inc inflation higher than modelled	financial resilience reduced and threat of deficit position for parent authorities	continuous monitoring and stress testing through modelling – amend proposal, reduce or remove tag discount, lobbying government
Cabinets/Full Councils reject TBTFJC proposals or the Authorities take opposing views	no resolution of the current reserve deficit and/or mediation/arbitration is required	Portfolio Holders' membership of TBTF Joint Committee and incorporation of anticipated approval criteria in proposal – if necessary amend proposal

9 Cornwall Development and Decision Wheel

9.1 A Development and Decision Wheel is not required for this report.

10 Options available

10.1 The options available are set out in Section 2 of the report namely:

- do nothing
- uniform 30% increases
- uniform 35% increases
- hybrid 35% cash/30% tag increases

11 Supporting Information (Appendices)

- Appendix 1 Graph - Reserves without Intervention
- Appendix 2 Graph - Uniform 30% Increases
- Appendix 3 Graph - Uniform 35% Increases
- Appendix 4 Graph - Hybrid 35% cash/30% tag increases
- Appendix 5 Graph - Uniform 30% Increases with indexation

12 Background Papers

- 2021-22 Revenue Estimates and Capital Programme, December 2020
- Future Financing Report August 2021
- Future Financing Report October 2021

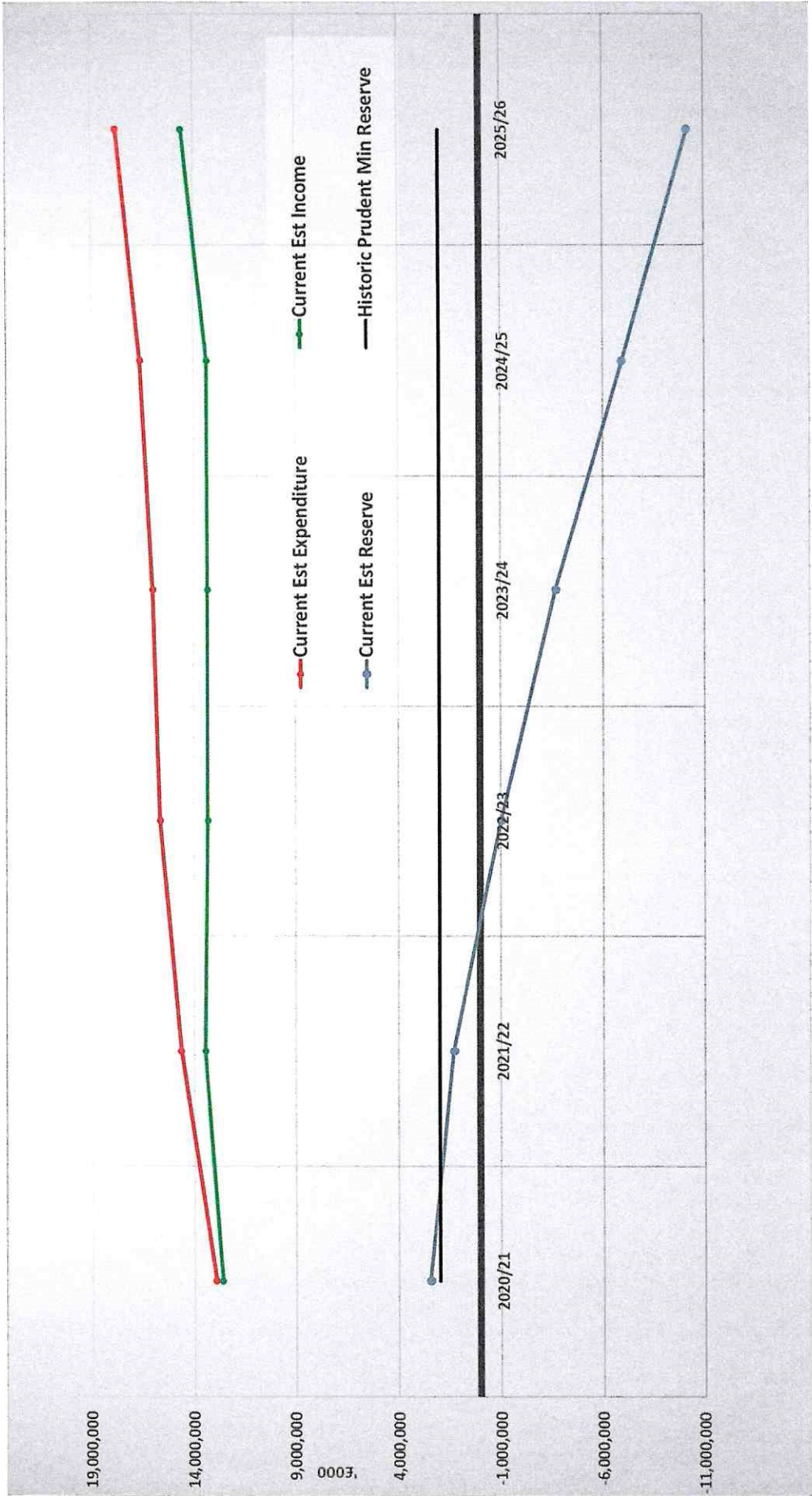
13 Approval and clearance

All reports:

Final report sign offs	This report has been cleared by (or mark not required if appropriate)	Date
Governance/Legal (required for all reports)	Lia Muston-Shinton	22.11.2021
Finance (required for all reports)	Geraldine Baker, Senior Business Analyst	19/11/2021
Equality and Diversity (if required)		
Service Director (required for all reports)	Vicky Fraser, Service Director Transport	23/11/2021
Strategic Director (If required)		

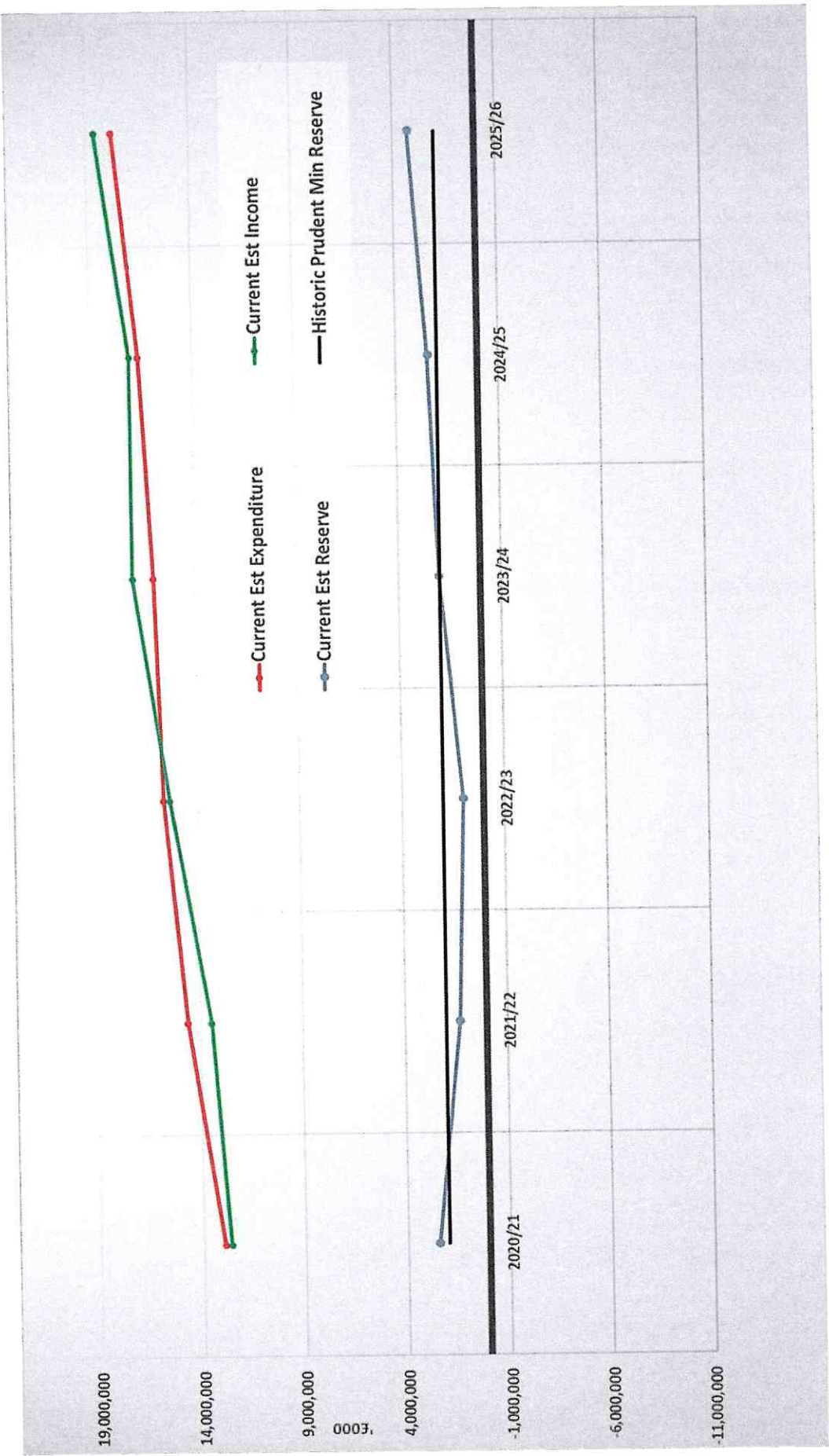
APPENDIX 1

RESERVES WITHOUT INTERVENTION



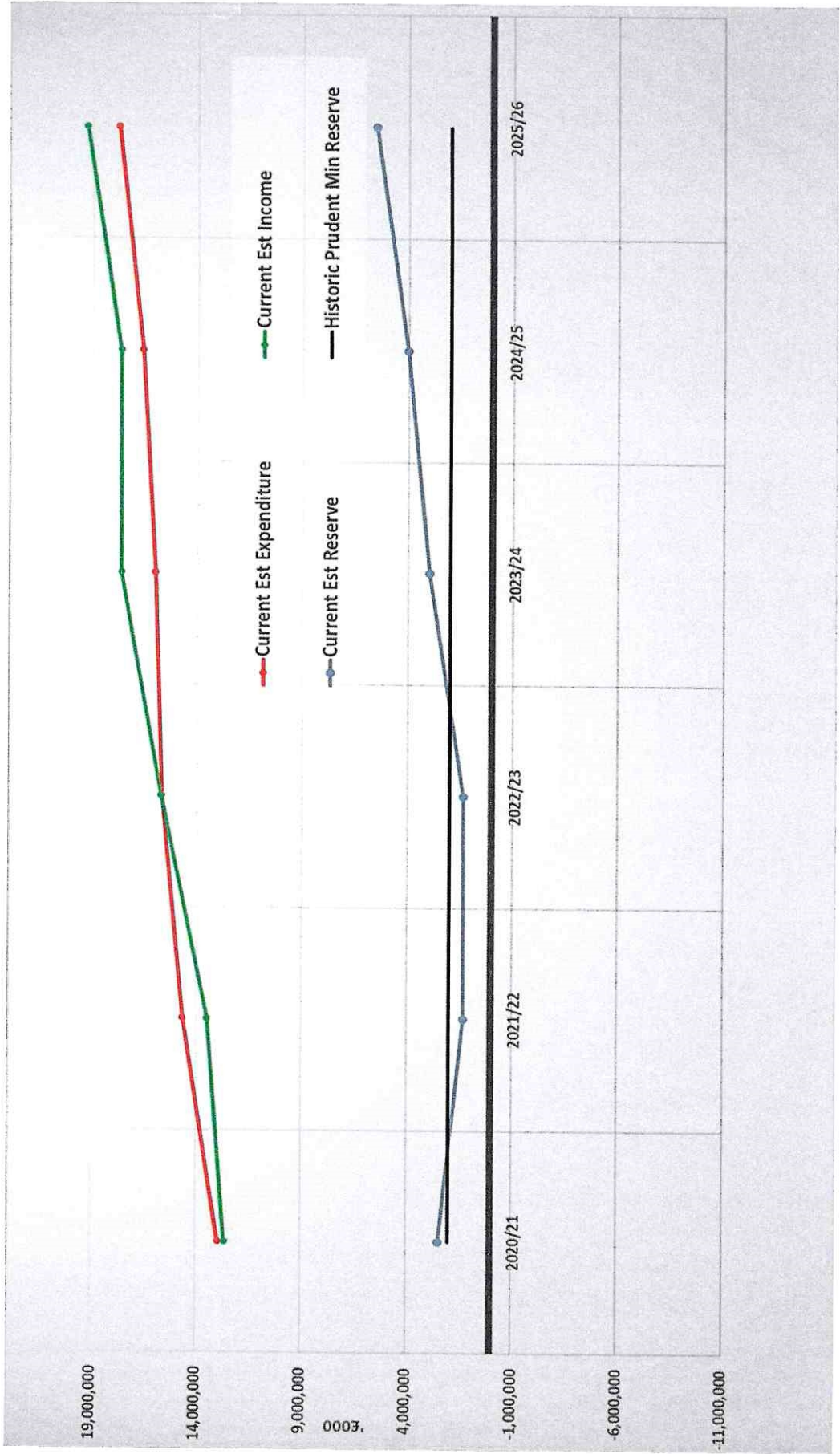
APPENDIX 2

UNIFORM 30% INCREASES



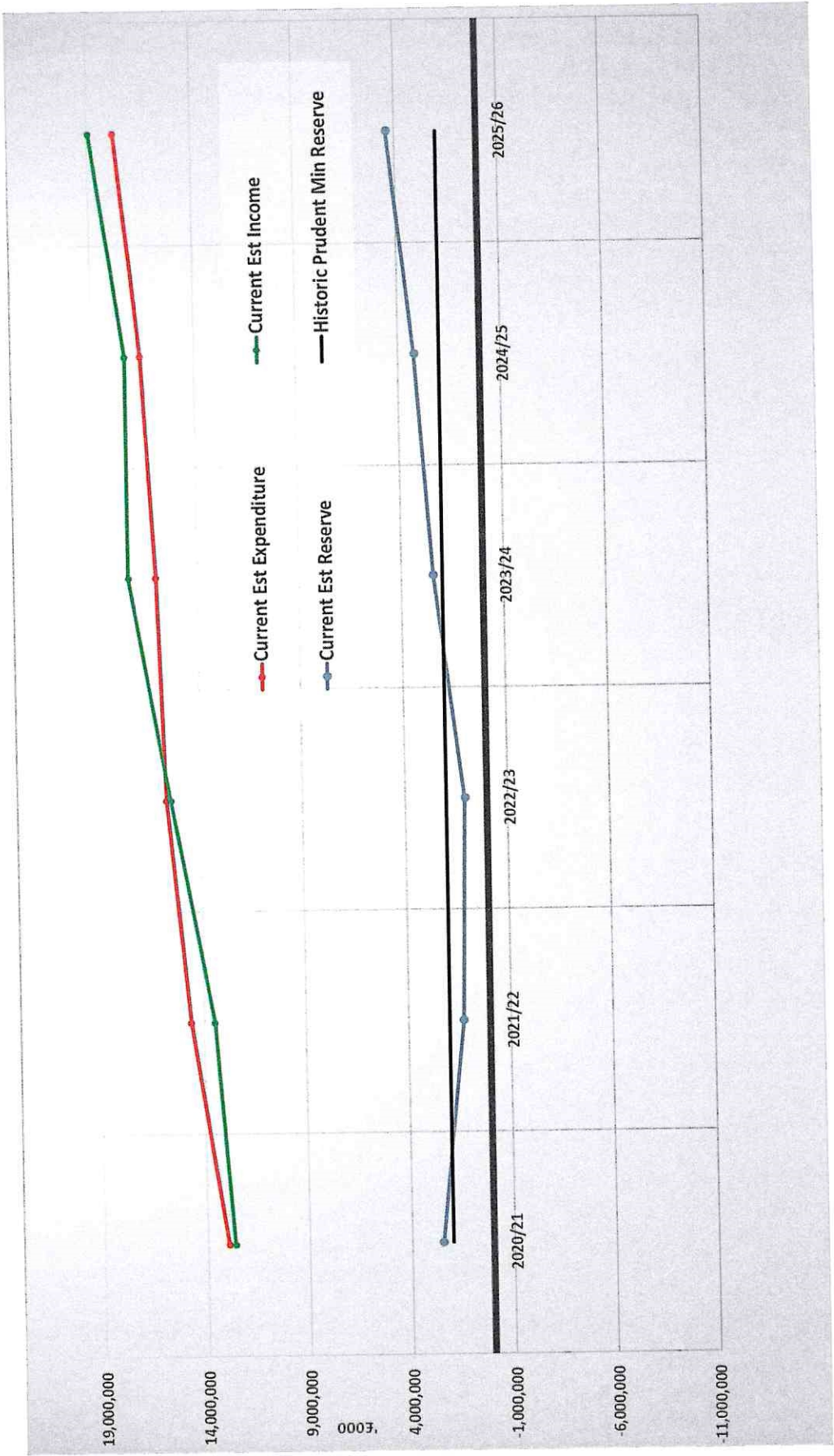
APPENDIX 3

UNIFORM 35% INCREASES



APPENDIX 4

HYBRID 35% CASH/30% TAG INCREASES



APPENDIX 5

UNIFORM 30% INCREASES (LONG TERM WITH INDEXATION)

