

# Business Support Overview and Scrutiny Committee

BRIEFING NOTE – No. 1/22

Date: 7 January 2022

Briefing paper to: All Members of the Business Support Overview & Scrutiny Committee

Purpose: In November 2019 the Committee requested a Briefing Note on the background to Medway Council's ownership of Medway Tunnel and its Funding Model.

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## 1. Ownership - Timeline

### 1.1 Construction Period (1987 – 1996)

In 1987, Kent County Council enlisted the help of The Rochester Bridge Trust (The Trust) to facilitate the promotion of a Private Bill to allow Medway Tunnel to be constructed. The Medway Tunnel Bill, promoted by the Trust, was submitted to Parliament in November 1988. On 26 July 1990 the Medway Tunnel Act received Royal Assent, granting to the Trust the power to build and own the tunnel. English Estates, who were responsible for regenerating the former dockyard, contributed £15 million towards the tunnel cost. The Trust contributed another £5 million, including purchasing all the necessary land. In November 1991, Kent County Council bid for, and received, a transport supplementary grant from the Department of Transport (50% grant and 50% approval for borrowing), enabling the County Council to pay for the Wainscot Northern Bypass (£55 million), the Gillingham Northern Link (£40 million), and the remaining cost of the Medway Tunnel (£60 million). The tunnel opened in 1996.

### 1.2 Lease Model (1996 – 2009)

The Council (on inception 1998) originally leased part of Medway Tunnel and has rights over the remaining part of the Tunnel (the part in fact within the river) under a 999-year lease from the Rochester Bridge Trust. The lease contained a covenant that the Council will keep the tunnel in good and substantial repair and that it will rebuild or reinstate as necessary, and that its liability will not be limited by the age or condition of the tunnel. If the Bridge Trust considered the Council to be in breach of this covenant at any time, then they can serve a notice on the Council informing them what works they need to carry out. If the Council fails to comply with its obligations, then the Bridge Trust can request the Trust's Court to order that the work be carried out. In addition, the Bridge Trust can give the Council four weeks' notice of any work that they consider necessary, and

if the Council fails to carry out the work then the Bridge Trust can do so in default and recover the costs and interest from the Council.

The Bridge Trust entered into a contribution agreement with the Council, whereby they contributed to the annual running costs of the tunnel, up to a maximum of £450,000 per annum. However, they did not have to make any contribution unless their engineer approved the Council's arrangements and costs for the operation and maintenance of the Tunnel each year and that they had the finance available to make the payment. This in effect meant that the decision whether to make the payment to the Council was within the Trust's discretion. All other running costs in respect of Medway Tunnel under the terms of the lease were the responsibility of Medway Council. When the original arrangement with the Trust was put in place, the intention was for the Trust to contribute, on a charitable basis rather than to be responsible contractually for the costs associated with the Tunnel. Once that approach had been set, Medway Council could not compel a change in funding. If the Trust decided that it no longer wished to contribute to the upkeep of the Tunnel, then it would be able to do that. It is after all a charity and payments are at its absolute discretion.

1.3 Medway Council Ownership (2009 Onwards)

The decision to purchase the tunnel was taken at Full Council on 12 June 2008 (minute No 107).

**2. Medway Tunnel – Funding Model**

2.1 The Medway Tunnel Funding Model is split between Annual Running Costs and Capital Infrastructure Works.

2.2 Annual Running Costs

Annual Running Costs for Medway average from £1.2 to £1.4 million depending on what the statutory inspections and maintenance requirements are in any year. Annual Running Costs for Medway Tunnel are funded from revenue and capital with the capital funding coming from the Annual Department for Transport Block Grant Allocation.

2.3 Capital Infrastructure Works

Capital Infrastructure Works principally relate to capital maintenance and or investment into the Infrastructure of Medway Tunnel when Assets have reached the end of Design-Life and require replacement to ensure the safe operation of the Tunnel.

2.4 Funding Secured & Drawn Down

Medway Council has secured two capital-funding streams for Medway Tunnel as set out in **Table 1** below. The Rochester Bridge Trust -One of Payment Contribution was fully spent at the end of financial year 2013-14 and the Southeast England Regional Assembly Grant was fully spent by

the end of financial year 2018-19. Both of these secured capital- funding streams were used to part fund annual running costs t and capital investment into the infrastructure of Medway Tunnel.

**Table 1**

<b>Funding Stream</b>	<b>£</b>
Rochester Bridge Trust – One Off Payment Contribution	
Value	3,273,760
South East England Regional Assembly Capital Grant (2010)	
Value	4,900,000

2.5 Funding Secured

Medway Council has successfully secured Department of Transport (DfT) Challenge 2B Funding of £4.9 million for capital infrastructure works for Medway Tunnel and the associated road network to Medway Tunnel.

**Table 2** below sets out the capital elements and their estimated costs of the Challenge 2B Funding Award that relate to Medway Tunnel for scheme delivery. Over the next four financial years.

**Table 2**

<b>Capital Infrastructure Item</b>	<b>£</b>
Ventilation Fans	525,000
Contra Flow Gaps	172,400
Sump Gas Sampling System	450,000
VMS, SCADA, CCTV, VAID and Network Replacement	2,586,800
Pump and Sump Refurbishment	745,400
Covers & Joint Drainage System	162,200

Challenge Funding Criteria did not allow for Medway Council to fund for Annual Running Costs.

2.6 Funding Bid

Medway Council are in ongoing negotiations with DfT Representatives with regard to secure a capital grant award for the Annual Running Costs for Medway Tunnel. This capital grant (if successful) will be in addition to the funding that Medway Council has received through the Challenge 2B Funding for Medway Tunnel.

2.7 Funding Model – Spend Profile

**Table 3** below shows the funding model spend profile since Medway Council took ownership for Medway Tunnel.

**Table 3**

<b>Year</b>	<b>Revenue Expenditure</b>	<b>Capital Expenditure</b>
	<b>£</b>	<b>£</b>
2009/2010	611,736	106,101
2010/2011	861,000	831,766
2011/2012	766,754	1,463,932
2012/2013	641,405	127,538
2013/2014	451,586	317,082
2014/2015	479,350	292,317
2015/2016	499,659	418,580
2016/2017	501,734	476,511
2017/2018	360,457	371,090
2018/2019	554,091	537,121
2019/2020	424,520	648,614
2020/2021	926,494	1,069,350
<b>Total</b>	<b>7,078,786</b>	<b>6,660,002</b>

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