



House of Commons
Welsh Affairs Committee

The Severn Crossings Toll

Third Report of Session 2010–11

Volume I: Report, together with formal minutes, oral and written evidence

Additional written evidence is contained in Volume II, available on the Committee website at www.parliament.uk/welshcom

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The Welsh Affairs Committee

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Summary

The Severn Crossings provide a key link in Wales' transport and economic infrastructure and are essential to the Welsh economy. Among the benefits are increased access to customers and suppliers, reduced journey times and a widening of the labour pool. Tolls are a mechanism which is justified by the need to strike a balance between the cost of improved infrastructure and the benefits brought to the user. The imposition of a toll is largely a matter of political choice and historical accident.

There is a perception that the high cost of the toll represents a barrier to business activity across the bridge, hampering the development of Welsh businesses and acting as a deterrent to inward investment in Wales. In particular, it is argued that the toll adversely affects small businesses looking to operate in the south-west of England, and those engaged in the tourism, transport and logistics sectors, which rely heavily on the Severn Crossings link for their businesses. However, successive UK Governments have failed to undertake a study of the economic and social impact of the Severn Crossings toll charge, so empirical evidence is scarce.

The Welsh Assembly Government has recently commissioned an economic impact on the bridges' operation and future. The Committee recommends that the study must examine not only the elasticity of demand among current users, but also seeks the views of Welsh companies who currently argue it is not financially worth their while seeking work in England. The study must also include companies that have located on the English side of the crossings and ascertain the extent to which their decision was influenced by the level of the toll.

Our inquiry demonstrates the inflexibility of the Severn Bridges Act 1992 and the concession agreement between the Government and Severn River Crossing Plc. Neither allows the Government to impose a level of toll charge as it sees fit in the current economic climate without incurring liability for the taxpayer.

The introduction of a contemporary payment method is essential and not before time. The Severn Crossings are a gateway into Wales and provide a first impression to many travellers. We have been assured that a permanent credit card payment system will be installed and active by the end of the first quarter of 2011 at the latest. The technology also exists for more superior methods of payment, such as free-flow technology. The Government should pay for improving the methods of payment. This should happen soon.

The Government must develop urgently a future strategy for the crossings. The 2017 handover provides an unique opportunity to re-examine the pricing policy for the Severn Crossings. Once the bridge returns to public ownership and its current debt is paid off, the cost of maintenance and toll operation will be a fraction of the current monies raised by the toll charges. There is a strong case for significantly reducing the cost of the toll, and the Government must not be tempted to use the crossings as a "cash cow" when it takes over responsibility for the crossings.

We welcome the UK Government's recognition of the importance of the Severn Crossings to the Welsh economy and its transport infrastructure. There must continue to be a close

working relationship between the Department for Transport and the Welsh Assembly Government over the future strategy for the Severn Crossings.

1 Introduction

Background

1. The first road link across the River Severn and Wye (the M48 Severn Bridge) was opened in 1966, with a toll in place to pay for the cost of construction. As traffic levels increased, the original crossing was deemed unable to cope efficiently with the congestion, and in 1986 the Government announced the construction of a second bridge.
2. The contract to construct the second Severn Crossing (the M4 Severn Bridge) was awarded to Severn River Crossing Plc (SRC)¹ in April 1990 under a DBFO (Design, Build, Finance and Operate) Private Finance Initiative Scheme. Under the agreement, the company would also take over the maintenance and operation of the existing Severn Bridge. In October 1990, a concession agreement was signed between the Government and Severn River Crossing Plc, and in February 1992 the Severn Bridges Bill received Royal Assent.
3. Under the terms of the concession agreement which commenced in April 1992, Severn River Crossing Plc took over responsibility for both the operation and maintenance of the original bridge, and the financing of the outstanding debt of £122 million, and the organising of the construction of the new bridge. The construction of the new bridge cost £330 million (excluding VAT) and was opened on 5 June 1996.
4. In return, the concession agreement allowed Severn River Crossing Plc to collect tolls from both crossings for an agreed period. This is their only source of income.
5. The Severn Bridges Act 1992 established the conditions under which the concession will end, and both bridges will revert to public ownership.² The Act notes that the concession agreement ends either at:

... the end of the period of 30 years beginning with the appointed day; [or]

Where it appears to the Secretary of State that the revenue requirement has been met on a day, the right of the concessionaire to exercise the power to levy tolls shall end at such time after that day as the Secretary of State may determine.³

UK context

6. As well as the Severn Crossings toll between England and Wales, there are three tolled road crossings within Wales and fourteen in England. Many of these are small privately operated tolls. The remainder are either: publicly operated; a concession for a limited period; or a “charity”. These are—Severn (concession), Cleddau bridge at Milford Haven (local authority), Dartford Crossing (formerly a concession, now in public ownership),

1 Severn River Crossing Plc is a single-purpose company. Its shareholders are John Laing plc, Vinci (GTM-Entrepose), Bank of America and Barclays Private Equity (Barclays de Zoete Wedd (BZW)).

2 See paragraph 69.

3 Severn Bridges Act 1992, Part 2 Section 6

Humber bridge (local authority), Itchen bridge (local authority), Mersey tunnels (local authority), Tamar bridge (local authority), Tyne tunnel (local authority) and the Clifton bridge (charity).

7. There are no tolls in Northern Ireland or Scotland.

Our Inquiry

8. The Severn Crossings are a vital link between South Wales and England. There has long been public interest in the effects of the tolls on the economy of Wales and its impact on users of the bridges. There has been uncertainty over the future of the bridges once they revert to public ownership.

9. On 20 July 2010, we announced our inquiry which would examine:

- The impact of the toll on the Welsh economy including businesses, local residents and tourists;
- The current level of toll prices and the available methods of payment;
- The current condition of the bridges and the costs associated with ongoing maintenance; and
- The future of the crossings once they have reverted to public ownership.

10. Among others, we took oral evidence from Mike Penning MP, Parliamentary Under-Secretary of State, Department for Transport; Ieuan Wyn Jones AM, Deputy First Minister for Wales and Minister for the Economy and Transport, Welsh Assembly Government; and Jim Clune, General Manager, Severn River Crossing Plc.⁴ We also undertook a visit to the Severn Crossings in September. We are grateful to everyone who provided oral and written evidence to our inquiry.

11. The Committee was assisted in this inquiry by its Specialist Adviser, Professor Stuart Cole, Wales Transport Research Centre, University of Glamorgan Business School.⁵

4 For a full list of witnesses, please see page 36.

5 See Formal Minutes of 27 July 2010 at <http://www.parliament.uk/documents/commons-committees/welsh-affairs/WelshACformalminutes1011.pdf>

2 Impact of the Toll on the Welsh Economy

Principle of Tolling the Severn Crossings

12. There have been few studies on the economic impact of tolling regimes throughout the UK, and no surveys of the economic and social impact of the Severn Crossings toll charges.⁶ However, in 2009, the Federation of Small Businesses (FSB) commissioned Aberystwyth University to investigate the economic impact of the Severn Crossings Toll on local businesses in South Wales and the Greater Bristol region. The report's objectives were:

... to ascertain the extent to which SMEs within South Wales and the Bristol regions rely on the Severn Crossings, including businesses whose customers might use them, and to examine the wider effects of toll charges on competitiveness and business performance.⁷

13. The Report identified the benefits of the Severn Crossings as:

- Increased market demand by improving access to customers, suppliers and distributors;
- Cost advantages in terms of reduced journey times and costs compared with alternative routes; and
- Widening the labour pool and increasing staff reliability.⁸

In evidence to the Committee, witnesses agreed that the Welsh economy had benefited from the Severn Crossings, which they argued provided a “key link in Wales’ transport and economic infrastructure”.⁹ Monmouthshire County Council stated that it was “reliant for its economic future on the access provided by the bridges”,¹⁰ while the Welsh Assembly Government explained its importance as part of a trans-European network:

As part of the strategic M4 corridor, [the crossings] provide Wales’ businesses with access to markets in southern England and, beyond that, mainland Europe.¹¹

14. Tolls are not popular in the UK, due to their rarity. However, witnesses noted that “tolls are generally levied for large infrastructure projects such as bridges and tunnels”.¹² In the Westminster Hall debate on the Severn Bridges Tolls on 23 June 2010, Norman Baker MP,

6 Ev 63

7 *The Severn Bridge-Taking its toll on the Economy?* commissioned by the Federation of Small Businesses, October 2010

8 *Ibid.*

9 Ev 70

10 Ev 61

11 Ev 70

12 Ev 59

Parliamentary Under-Secretary of State, Department for Transport, cited what he argued was the “historic” rationale for tolling estuary crossings:¹³

... since 1945, it has been the policy of successive Governments that crossings on estuaries should be paid for by the user rather than by the taxpayer. Successive Governments have taken the view that tolls on all such crossings are justified because the user benefits from the exceptional savings in time and money that expensive facilities make possible.¹⁴

15. The Freight Transport Association commented that:

We [...] recognise the fact that these large infrastructure projects would in some cases not go ahead unless there was a way of attracting the necessary finance. Consequently, it is inevitable that some structures would not have been built without the providers being guaranteed a reliable revenue stream or concessions being put in place to encourage private investment and, like Severn River Crossing Plc, these companies have a duty to ensure that the business remains profitable.¹⁵

Nia Davies, Policy Officer for the Federation of Small Businesses, argued that “If there was a choice between not having a bridge and having a bridge with a toll, obviously we would go for the second option”.¹⁶ This view was supported by Denise Lovering, Director of Glenside Commercials, who commented:

I agree [...] that in a perfect world there would be no tolls at all, but I think we all accept that the users will have to pay for this little stretch of road that goes across the water.¹⁷

16. Other witnesses disagreed with the rationale of tolling the Severn Crossings. Chris Yewlett, Chairman of the Chartered Institute of Logistics and Transport (UK) Cymru Wales argued that the development of the new (M4) Severn Crossing should be seen as an expansion of the existing M48 crossing:

Expansion of [...] motorways— additional lanes and so on—is regarded as part of the day-to-day or year-to-year expenditure of the Department for Transport. Putting a new bridge into Wales could be argued to be an expansion to the existing one. We have paid for the existing one, so why should we have to pay for the expansion when other people do not have to pay for improvements to their roads?¹⁸

13 HC Deb, 23 June 2010, col 129WH

14 *Ibid.*

15 Ev 56

16 Q 16

17 Q 70

18 Q 17

The National Alliance Against Tolls described the establishment of tolls in Britain as a “lottery”:¹⁹

As the Government collects about £50 billion a year in taxes on roads use, and only spends a small fraction of this on roads, it is wrong for Governments to refuse to pay for an adequate road system or to say that the only choice is a tolled crossing or no crossing.²⁰

Tolls are a mechanism which is justified by the need to strike a balance between the cost of improved infrastructure and the benefits brought to the user. Other road users in the UK are subject to charges such as congestion charges and high parking charges, which road users in Wales do not have to bear. However, the logic of funding the bulk of road improvements out of general taxation (where these clearly benefit the individual user) and adopting a pay-as-you-go approach to other infrastructure projects is not self-evident. We should recognise that the imposition of a toll is largely a matter of political choice and historical accident.

Impact on the Economy

17. In examining the economic impact of the toll, the Aberystwyth University Report concluded that:

The [...] most obvious outcome of our study is that, for most SMEs the economic impact of the toll was not substantial. Of the overall 122 survey respondents:

- slightly over half either did not use or depend on the Crossings, or considered them not very or only slightly important to their businesses;
- almost five sixths either did not use or depend on the Crossings, or considered the expenditure incurred from doing so to be, at most, only of slight significance;
- approximately the same proportion either did not use or depend on the Crossings, or considered their impact on competitiveness to be, at most, only of slight significance.²¹

18. However, the Report recognised that the effects of the toll did vary substantially across different sectors and affected a “significant minority” particularly, “businesses engaged in construction and the motor trades, and in tourism and transport activities”.²²

19. It was the level of the toll that concerned most witnesses. Dr Andrew Potter, Policy Officer for the Chartered Institute of Logistics and Transport (UK) Cymru Wales, explained, “We don’t actually have an opposition [...] to having a toll on the road. It has got

19 Ev 63

20 *Ibid.*

21 *The Severn Bridge-Taking its toll on the Economy?* commissioned by the Federation of Small Businesses, October 2010

22 *Ibid.*

to be the right level of toll”.²³ This view was repeated by Rick Longford, Economic Development Manager for Monmouthshire County Council:

... it is the high rate of the toll which is the particular problem. We have lived with tolls for a long time so we accept that the tolls are there, but it is the high rate that is the problem.²⁴

20. Many witnesses agreed that the level of the toll acted “as a barrier to business activity across the bridge”.²⁵ Monmouthshire County Council stated that:

Those businesses reliant on the bridges for their operations have reported that tolls are of major concern, the results of which have to be built into cost base calculations. This added cost makes it more difficult for Welsh producers to be competitive. The tolls are effectively an additional tax on companies doing business in Wales, and without that cost, Welsh goods exported to the south and south west of England would be more competitive.²⁶

21. The Aberystwyth University Report concluded that businesses on the South Wales side of the crossings were more adversely affected than those in the Greater Bristol region and beyond:

This disproportion exists because it is more important for expanding businesses on the western side to access the increasingly integrated British market, than it is for those on the eastern side to access the South Wales market. Put quite simply, Greater Bristol businesses are already closer to the national economic core, and beyond that, the increasingly important European market, than those on the Welsh side of the River Severn.²⁷

Transport and Logistics sector

22. The road network is currently the main method of moving freight and providing services between Wales and the rest of the UK.²⁸ Haulage and logistics firms operating in South Wales therefore rely heavily on the Severn Crossings link for their business. We received strong evidence of the detrimental effect caused by the high level of the toll to the transport and logistics sector. Witnesses commented that the industry traditionally operated within small profit margins, exacerbated by the current economic climate, and was also facing a significantly increased threat by continental competition. In the light of this, Michael Webb, Public Affairs Manager for the Freight Transport Association, commented that the toll:

23 Q 33

24 Q 294

25 Ev w10

26 Ev 61

27 *The Severn Bridge-Taking its toll on the Economy?* commissioned by the Federation of Small Businesses, October 2010

28 Ev 60

... restricts the ability of Welsh companies to operate cross-border. The haulage market in the economic downturn is extremely fraught and every penny really does make a difference. If you are a company looking to buy some logistics work based around the English side of the bridge, ultimately, if it will be £16.40 [per trip] cheaper to use an English company rather than a Welsh one, you will use the English company.²⁹

23. Denise Lovering, Director of Glenside Commercials, commented that her company spent between £6,000 and £7,000 a year on tolls³⁰ while another company currently “pays £200,000 a year”.³¹ As Mrs Lovering indicated, these costs came “straight-off the bottom line”.³²

Because of the very nature of the work, most people know the price that they are going to pay when they have goods moved, so it is very difficult in the competitive world in which transport and haulage companies work to add the £16.40 into a bottom line and hope that no one is going to pick it up. So it is a cost that they have to absorb.³³

Commuters and Tourism

24. We took limited evidence on the effect of the toll on commuters and tourism. The Chartered Institute of Logistics and Transport (UK) Cymru Wales commented that:

... in terms of employment, the presence of the tolls undoubtedly distorts the market. Anyone wishing to commute between South Wales and South West England (or vice versa) will incur an additional daily cost in the journey to/from work. For those on a medium to high salary, this may not have a significant influence—there is a noticeable commuter market using the crossings. However, for those in low to medium salary jobs, the cost has more significant implications and therefore may limit access to employment opportunities across the estuary.³⁴

25. Although Monmouthshire County Council could not provide direct evidence of the effect of the toll on tourism, they drew our attention to a Tintern³⁵ tourism related business report which stated:

... we can say with good general knowledge built up over the last two decades and with the continual rise in the Severn Bridge toll that our existing Bristol and South West customer base that visited the Wye Valley as day trips or weekend trips has

29 Q 58

30 Ev 60

31 Q 56

32 Q 57

33 Q 57

34 Ev 49

35 Tintern, Wye Valley, South Wales

continually declined, obviously preferring to look for places to visit within their own catchment area and avoiding the toll charges.³⁶

In oral evidence to the Committee, Rick Longford, Economic Development Manager for Monmouthshire County Council expanded on this point:

... when we look at one-off events such as the Abergavenny Food Festival, we would see, potentially, tourists coming to the Abergavenny area from the Bristol area who may well be [...] deterred from coming [...] the toll is then a significant element of the tourist sector.³⁷

26. Capital Region Tourism (CRT)³⁸ commented that the level of the toll had the greatest impact on those travelling for day visits from the Bristol area “thus disadvantaging South Wales’ attractions, events and activities in what should be a key local market”.³⁹ It identified what it termed as a “psychological impact” for visitors, “that it costs money and time to get into Wales”.⁴⁰

The impact on longer stay visitors is less cost-related and more to do with (a) the poor first impression of Wales as unwelcoming and grasping (even though Wales receives none of the revenue) often linked to (b) delays and congestion at the toll plaza leading to frustration and anxiety where there are specific deadlines e.g. major events, accommodation bookings.⁴¹

Impact on inward investment

27. A number of witnesses argued that the Severn Crossings toll had an adverse impact on inward investment in Wales and influenced a company’s decision on whether to locate either west or east of the Severn River. The National Alliance Against Tolls argued that toll crossings “cast a blight and inhibit economic activity in the areas where they are situated”.⁴² Ian Gallagher, Policy Manager for the Freight Transport Association, told us that he had made an informal survey of south-west and Welsh members to see if tolls had been an issue in the relocation decision. He told us that two companies, Culina Transport and Snows Commercials decided to locate around the Avonmouth area specifically for that reason: “If they went to south Wales, they would be paying the tolls, so it does have a bearing on location”.⁴³

36 Ev 61

37 Q 280

38 One of four regional tourism partnerships in Wales, with responsibility for the development and implementation of a tourism strategy for South East Wales.

39 Ev w2

40 Ev w2

41 *Ibid.*

42 Ev 63

43 Q 60

28. Monmouthshire County Council put forward the suggestion that the toll had affected the development of the business park at Magor which had been difficult to develop “despite its great location”.⁴⁴

How much tolls influence these development decisions is unknown due to the complexity of the development process but again tolls must be a contributory factor in company relocation decisions and if that decision is finely balanced, tolls may well be the deciding factor.⁴⁵

29. In contrast, other witnesses argued that the toll was not a factor. The Chartered Institute of Logistics and Transport (UK) Cymru Wales stated that they were “not aware of any situations where a company has not located a facility because of the tolls”,⁴⁶ which was supported by Monmouthshire County Council.⁴⁷ Mike Penning MP, Parliamentary Under-Secretary of State, Department for Transport commented that:

I can’t find any evidence that investment in Wales has been, or is being, affected by the tolling. [...] I am more than willing to look at evidence should it be brought before me, but there doesn’t seem to be any evidence that it is affecting the Welsh economy.⁴⁸

30. Ieuan Wyn Jones AM, Deputy First Minister for Wales and Minister for the Economy and Transport, Welsh Assembly Government, described the toll as only “one of the costs”⁴⁹ to businesses:

When you look at the total cost for a business, you will see that not only must you consider the cost of the toll, but also, if you were to settle on the other side of the bridge, you would have to consider what your rental charges and business rates would be and so forth. In the total picture, does the toll, of itself, determine that? I think that it would be dangerous for us to say that it is just a matter of the toll. You probably have to look at the wider picture.⁵⁰

Economic Impact Study

31. Much of the evidence we received was anecdotal only. Although significant in itself, witnesses acknowledged that further empirical studies would be needed to fully appreciate the impact of the toll on the economy. The National Alliance Against Tolls commented that, although the Aberystwyth University study was useful, it was not a full study of the

44 Ev 61

45 *Ibid.*

46 Ev 49

47 Q 296

48 Q 347

49 Q 246

50 *Ibid.*

impact of the toll on the economy.⁵¹ Professor Peter Midmore who led the study at Aberystwyth University, acknowledged that his work was only an “indicator”:⁵²

I would be sticking my neck out to say that they were statistically robust, but certainly in the absence of any other information, this is the best information that currently exists.⁵³

32. To make up for the lack of empirical evidence, on 30 June 2010, the Welsh Assembly Government announced that it was to commission externally an economic impact study on the bridges’ operation and future. The Deputy First Minister for Wales argued that hitherto there was a lack of “real evidence” on the impact of the tolls to the Welsh economy.⁵⁴ James Price, Director of the Infrastructure Group at the Welsh Assembly Government, explained what the study would identify:

In essence, apart from anecdotal evidence, and apart from understanding the level of traffic flow on the road [...] we do not have the information necessary to take a strategic policy position. We want to understand things such as what is the real price elasticity of demand [...] how that affects different sectors of industry and locational decisions, and, if it does have an effect, to what extent that occurs. We want to understand, on the back of the elasticity information, if the tolls were not there, what the demand would be, and how that would affect the rest of the transport network in England and Wales.⁵⁵

33. During our inquiry we voiced concerns that the survey, while capturing the elasticity of demand among current users, would not capture those companies that had located on the English side due to the toll, or those companies in Wales that felt it was not financially worth their while to seek work in England. James Price maintained that “the elasticity of demand point [...] was not simply about looking at what is currently happening on the bridge”:⁵⁶

We would also look at other tolling regimes elsewhere in the world. We would then do a desk-based study, looking at evidence from Wales and elsewhere in the UK and the wider world about locational decisions, and also look at what effect it would have on different business sectors. Basically, you would model it. You would ask what kind of effect it is having on the jobbing builder or on a middle-sized company. So, I think that it will capture that.⁵⁷

The Welsh Assembly Government informed us that they intend to publish the initial findings in the Spring of 2011.⁵⁸

51 Ev 71

52 Q 31

53 Q 31

54 Q 229

55 Q 237

56 Q 253

57 *Ibid.*

58 Q 254

34. Mike Penning MP, Parliamentary Under-Secretary of State, Department for Transport, in response to a Parliamentary question stated that he would consider its findings and therefore found no reason for the Department for Transport to commission its own review.⁵⁹

35. The Severn Crossings provide a key link in Wales' transport and economic infrastructure. We note that successive Governments have never undertaken a study of the economic and social impact of the Severn Crossings toll charges. There is therefore no quantitative evidence as to the effect of the toll on the economy of Wales.

36. We recognise the concerns of business about the impact of the high cost of the toll. Some businesses argue that the toll represents a barrier to business activity across the bridge, hampering the development of Welsh businesses and acting as a deterrent to inward investment into the country. In particular, it was argued that the toll has a significant effect on the transport and logistics sector and on the tourism industry. However, no firm conclusion can be drawn without a comprehensive study to evaluate the impact of the toll.

37. We welcome the Economic Impact Study commissioned by the Welsh Assembly Government. To ensure that it captures the full picture, the study should examine not only the elasticity of demand amongst current users, but also seek the views of companies in Wales who argue it is not financially worth their while seeking work in England. We also recommend that the study includes companies that have located on the English side of the crossings and ascertain the extent to which their decision was influenced by the level of the toll.

38. We welcome the Department for Transport's commitment to consider the findings of the survey commissioned by the Welsh Assembly Government. We look forward in due cause to debating the Government Response to this Committee's Report on the floor of the House.

59 HC Deb, 12 October 2010, col 257W

3 The Severn Crossings under the Concession Agreement

Current toll prices

39. The tolling regime for the Severn Crossings is set out in the Severn Bridges Act 1992, including what categories of vehicle will be tolled, and at what level. Toll prices are adjusted annually by the Secretary of State for Transport, and are increased in line with the retail price index (RPI) using a formula and rounded to the nearest 10p.⁶⁰ Below are the toll prices for 2010 and the new prices for 2011:

	Toll Prices in 2010	Toll prices from January 2011
Vehicle category one (up to nine seats)	£5.50	£5.70
Vehicle category two (small bus up to 17 seats and goods vehicles up to 3,500kg)	£10.90	£11.50
Vehicle category three (18 seats and more and goods vehicles from 3,500kg)	£16.40	£17.20

Motorcycles and UK and EU disabled badge holders are exempt from toll charges, as are vehicles used by fire, police, civil defence and ambulance services. There is no extra charge for towing caravans/trailers.

40. A number of witnesses called for the Government to “freeze the expected toll increase for 2011”.⁶¹ The Freight Transport Association commented:

... when the methodology for setting the Severn Bridge tolls was originally agreed, it was not imagined that they would result in some of the highest tolls on a road infrastructure anywhere in the UK.⁶²

Denise Lovering, Director of Glenside Commercials stated that, “People are just sick and fed up with paying them”.⁶³

41. In the Westminster Hall debate on the Severn Bridges Tolls, Norman Baker MP, Parliamentary Under-Secretary of State from the Department for Transport commented that:

60 Ev 69

61 Ev 56

62 Ev 56

63 Q 101

The Severn Bridges Act 1992 seeks to apply a clear structure to the tolls to give the concessionaire confidence that it will be able to meet its liabilities and manage the risks that it accepted through the concession agreement [...] I want to stress an important point: the Secretary of State does not have the authority to set the annual tolls below the level of RPI increase without the concessionaire's agreement. The concessionaire would not be able to agree to anything that would affect their net revenue without compensation and agreement from their shareholder and lenders, which could result, if such an agreement were forthcoming, in a cost to the taxpayer.⁶⁴

42. During our inquiry, we pursued further the possibility of freezing the toll for the coming year. While Jim Clune, General Manager of Severn River Crossing Plc, stated that he was aware of the concerns of businesses he continued, "The finance agreements that we have with all our lenders oblige us to charge the toll calculated under the Severn Bridges Act".⁶⁵

43. Mike Penning MP, Parliamentary Under-Secretary of State, Department for Transport, told the Committee that, "The increase in tolls [...] is set in statute".⁶⁶ He stated that:

The contract is very restricted. The powers that the Secretary of State and I have are actually quite constrained. For instance, if I wanted to suspend charging at night or do something similar to what I am doing at Dartford, where I suspend the charge when tailbacks become unacceptably long [...] [u]nder the contract, if I asked the Secretary of State to impose those sorts of things [...] the taxpayer, under the contract, would have to then compensate the company. They do not want to go [...] beyond 2017.⁶⁷

He further elaborated:

If we actually incur costs to them, that liability has to be, under the agreements, the liability of the taxpayer unless they [Severn River Crossing Plc] agree that they want to extend.⁶⁸

and:

... the Secretary of State does have the powers [to set the annual tolls below the Retail Price Index] [...] but then we have to compensate them from the taxpayers' purse for the loss. With the priorities and where we are at the moment, I would struggle to be able to say that I can use taxpayers' money to subsidise at that time [...] we would have to pay them the difference for the loss of income.⁶⁹

64 HC Deb, 23 June 2010, col 131WH

65 Q 131

66 Q 333

67 Q 335

68 *Ibid.*

69 Q 350

44. In discussing the appetite of Severn River Crossing Plc to extend the concession beyond the current projected end date of 2017, Graham Bowskill, Divisional Director South West for the Highways Agency, commented that, “Their preference is that they don’t extend because they take on an extended period of risk, in their view, because they would be responsible for the existing structures”.⁷⁰

45. Witnesses criticised the inflexibility of the Act. As Ian Gallagher from the Freight Transport Association stated, “the Act is absolute. It has been written by a genius. It is so watertight in favour of Severn River Crossing Plc, it is unbelievable”.⁷¹

46. As some witnesses underlined, reducing or freezing the toll price would mean it would take longer for the concession to collect its income target, and would result in the delayed handover of the crossings to the Government. Dr Andrew Potter, Policy Officer for the Chartered Institute of Logistics and Transport (UK) Cymru Wales commented: “It might be a case of biting the bullet and sticking with what we have got for the time being, then bringing in a slightly different toll mechanism when the concession ends”.⁷² Nia Davies from the Federation of Small Businesses felt that, “To lower it now and extend the ownership may not be the way forward”,⁷³ while the Deputy First Minister for Wales agreed that:

... we should move to see that contract concluded sooner rather than later, and then we can have a broader discussion on the use of the tolls once that period comes to an end ...⁷⁴

Available Methods of Toll Payment

47. The Severn Bridges Regulations 1996 stipulated that all tolls leviable at the Severn Crossings should be paid in cash or using a pre-payment agreement (TAG). In July 2010, at the outset of our inquiry, these were still the only two forms of payment for users of the Severn Crossings.

48. Witnesses criticised an “antiquated” system which did not allow for more modern payment options, such as credit cards.⁷⁵ Cobalt Telephone Technologies commented:

Coins are a pre-Christian technology, We live in a digital age. It is arguably a mild national embarrassment that the prime gateway to Wales is operated as it is.⁷⁶

Ieuan Wyn Jones AM described the system as “archaic”⁷⁷ while Chris Yewlett, Chairman of the Chartered Institute of Logistics and Transport (UK) Cymru Wales commented on the negative image this gave of Wales:

70 Q 340

71 Q 79

72 Q 51

73 Q 54

74 Q 273

75 Q 355

76 Ev w4

There are problems [...] with occasional travellers and holidaymakers, especially those from overseas, who arrive without enough cash.⁷⁸

The TAG system

49. The TAG system is an electronic payment system primarily intended for regular travellers. It requires an account to be set up which has then to be ‘topped up’ with funds as required. The TAG is fixed to a vehicle’s windscreen. As a car approaches the toll lane a scanner reads the TAG and provided the account is in credit the user is able to drive through. The system will automatically record a journey and debit a proposed account.

50. The trip rate TAG is at the normal toll rate. There is no discount. There is also a season ticket rate, which for cars is currently £96.80 per month and £290.40 per quarter (2010 prices). This requires a minimum of 18 trips per month westbound to enable the user to make a saving. A regular commuter would pay on 22 occasions on average per month so a saving of 4 trips is made, although this would be affected by bank holidays or annual leave.

51. Witnesses spoke of the lack of concessions available with the TAG method of payment.⁷⁹ They compared the situation unfavourably to the Dartford crossing, where concessions are available:

If we look at other crossings such as Dartford, there are concessions built in. For example, local residents can benefit by obtaining a reduced TAG and then pay something like 20p after about 50 free trips. [...] So there is a concession when you get a TAG. Overnight it is free of charge.⁸⁰

52. However, Jim Clune argued that significant discounts were available:

Within the legislation and the concession agreement with the Secretary of State for Transport, we are required to offer discounts. [...] The electronic tag system that we operate offers significant discounts to regular users. Beyond that, we do not have any more flexibility within the legislation and the concession agreement. However, we offer discounts through our electronic toll-collection system.⁸¹

We are less than persuaded that the season ticket TAG system which offers 4 free crossings out of 22 represent a “significant discount” to the users of the crossings. We also note that the single trip TAG offers (unlike for example oyster cards) no discount at all.

Credit card payments

53. During the course of our inquiry, the option of payments by credit card was only available erratically. In March 2010, an amendment was made to the Regulations to allow credit card payments to be accepted at the Severn Crossings. This was in place for the Ryder Cup competition, held in Newport on 1–3 October 2010. Ieuan Wyn Jones AM,

77 Q 259

78 Q 40

79 Q 74

80 Q 77

81 Q 140

Deputy First Minister for Wales, commented on the importance of credit card payments being available for the event, and stated that the Welsh Assembly Government had “put pressure on the Department for Transport to ensure that the card system was in place”.⁸² Graham Bowskill, Divisional Director South West for the Highways Agency stated that they were “very proud of being able to get it in for the Ryder Cup”.⁸³

54. Jim Clune from Severn River Crossing Plc accepted that the system needed to be modernised,⁸⁴ although Graham Bowskill described the introduction of credit card payments as a “very long and tortuous route”.⁸⁵ In explaining the reasons for the delay in its introduction, he explained it was because:

... credit cards involve a new form of income coming into the SRC procedures. There is a cost of actually processing credit cards, which means that for every £1 coming in hard cash, they [Severn River Crossing Plc] would get less than £1 if it were paid on a credit card.⁸⁶

55. In written evidence to the Committee, the Department for Transport expanded on the costs associated with the introduction of credit card payments, mainly the bank transaction charges:

These are estimated to be between £7 million–£10 million to the end of the concession; approximately £1 million per year depending on usage. Implementation costs are expected to cost around £1.2 million.⁸⁷

The Minister explained that in order to get the credit cards in place for the Ryder Cup, the Department for Transport had had to compensate Severn River Crossing Plc for the loss of revenue:

This is where this contract was perhaps [...] very, very tight. If we ask them [Severn River Crossing Plc] to use sensible new technology, in other words, a credit card, for the loss of income they get because the credit card companies apply a levy on them, we have to compensate that and the cost of bringing it in is down to us as well.⁸⁸

56. Jim Clune noted that the take-up during the week of the Ryder Cup was “only about 2% of our total traffic”.⁸⁹ He could not estimate what the take-up would be in the future.

57. We explored the reason why credit card payments had been suspended following the Ryder Cup, only to be re-introduced in November. Jim Clune explained that it was always the intention “to have a temporary suspension to improve staff training and to try to refine the system and improve throughput time”.⁹⁰ Graham Bowskill agreed that the temporary

82 Q 271

83 Q 355

84 Q 149

85 Q 355

86 *Ibid.*

87 Ev 69

88 Q 356

89 Q 150

90 Q 152

system had been “administratively almost impossible [...] to handle because of the manual processing of the card payments. They have provided a system now which is more effective”.⁹¹ The current temporary system is still reliant on the PIN system.

58. Jim Clune maintained that a permanent system would be in place in the first quarter of next year.⁹² This system would not be dependent upon the PIN system, although a user of the crossings will “have to insert [the card] and take it out”.⁹³

59. In discussing who was now responsible for bank charges following the re-introduction of credit card payment facilities, the Minister stated that this was a negotiation “that is still taking place”:⁹⁴

I will say – there is no point in beating around the bush – that they are in the driving seat because of the way the contract is drafted.⁹⁵

60. Witnesses expressed disappointment that during this period of change regarding credit card payments, the public had not been kept informed. As Rick Longford, Economic Development Manager for Monmouthshire County Council stated:

I don’t think it is acceptable that we don’t know where we are. We have no communication really with Severn River Crossing Plc at all. They don’t give us any information in relation to tolling or tolling techniques.⁹⁶

The Minister agreed that it was “unacceptable for confusion to take place when the public are being asked to pay a fee”.⁹⁷ He continued that:

... I am very, very conscious that communicating with the public who are using the bridge is a matter for the Highways Agency to get right with the management operating the tolls. That is something we are working very closely on.⁹⁸

61. We welcome the introduction of a facility to make payment of the Severn Crossings toll by credit cards; albeit many years after it should have. The Severn Crossings are a gateway into Wales and provide a first impression to many travellers. For too long, the first impression of visitors was this antiquated system. This unacceptable situation went on too long. The introduction of a contemporary payment method is essential and not before time.

62. We are disappointed that a permanent system is not yet in place. Severn River Crossing Plc maintain that a permanent system will be installed and active by the end of the first quarter of 2011 at the latest. The public must be informed of developments

91 Q 355

92 Q 148

93 Q 359

94 Q 360

95 *Ibid.*

96 Q 316

97 Q 362

98 Q 363

and the system must be available in as many toll plazas as possible to make the credit card payment system accessible to the most number of users. We will continue to monitor developments closely.

63. Under the concession agreement, Severn River Crossing Plc is responsible for the maintenance of both crossings. The Department for Transport stated that “A rigorous schedule of inspections is carried out and regular review meetings are held between SRC [Severn River Crossing Plc] and the HA [Highways Agency]”.⁹⁹ According to Severn Crossings Plc, there were 80 to 90 people working on inspection and maintenance of the bridges. Jim Clune noted that “in the time that we have been operating, since 1992, our safety record is excellent”.¹⁰⁰

64. The Secretary of State for Transport is responsible for funding the repair of “existing or latent defects”.¹⁰¹ From 2007 this has included the cost of investigating and monitoring the M48 Severn Bridge main cables latent defect.¹⁰² The programme of mitigation and inspection work carried out to tackle corrosion has cost £15 million so far, with the second inspections costing a further £4 million. These costs form part of the accumulated deficit and will be recovered from tolls between the end of the concession period and the date on which the power to levy tolls will cease.¹⁰³

65. The Minister explained the condition in which the crossings must be on handover to public ownership:

I will personally—and I am sure any Minister in my position would—keep a very close eye on the maintenance in the run-up to the handover of the concession. The concept of it being handed over—and I am sure this is not the intention of the company—in a condition which is not in the maintained state that we would expect it to be in under the contract will mean that we will keep a very, very close eye as it is handed over. It will be handed over in a condition which is right and proper.¹⁰⁴

66. We are disappointed that it has not been possible to freeze the toll for 2011. The inflexibility of the Severn Bridges Act, as originally drafted, does not allow the Government to impose a level of toll charge as it sees fit in the current economic climate without incurring liability for the taxpayer. The Government should take responsibility for the failure of civil servants twenty years ago to future-proof the legislation.

67. There seems to be no appetite on the side of Severn River Crossing Plc to reduce the toll prices and extend the concession beyond the current forecasted end date of 2017. The responsibility of the company to its shareholders and debtors puts it in conflict

99 Ev 69

100 Q 180

101 Ev 69

102 Corrosion was discovered in the main suspension cables of the bridge. Existing or latent defects are not covered under the terms of the Concession Agreement.

103 Ev 169

104 Q 372

with the needs of the users of the crossings. This will end when the Severn Crossings return to public ownership.

68. We make no comment on the merits of using private sector finance to deliver public sector infrastructure. However, it is important that the Government learns from the inflexibility of the Severn Bridges Act 1992 and the concession agreement when agreeing future contracts.

4 Future of the Severn Crossings

Handover Date

69. As we have previously mentioned,¹⁰⁵ the Severn Bridges Act 1992 established the conditions under which the concession will end. Severn River Crossing Plc will continue tolling until “it appears to the Secretary of State that the revenue requirement has been met”,¹⁰⁶ subject to a maximum of 30 years. The Act states that the revenue requirement is met:

... on a day if the aggregate amount of toll income received by the concessionaire on or before that day is equal to or greater than the amount which he is entitled to receive in accordance with the concession agreement.¹⁰⁷

The amount the concessionaire is entitled to receive in accordance with the concession agreement is a cumulative revenue of £995,830,000 expressed in July 1989 prices.¹⁰⁸ The Highways Agency reviews the projected concession end date every six months using data supplied by Severn River Crossing Plc to gain assurance that the revenue target will be recovered within the concession agreement. Earl Attlee, Government Spokesperson for Transport, stated on 19 July 2010 that “the end date is currently predicted to be the first half of 2017”.¹⁰⁹

70. Jim Clune, General Manager of Severn River Crossing Plc, commented that the company had had no discussions with the Department for Transport regarding handover arrangements.¹¹⁰ In contrast, the Deputy First Minister for Wales stated that “because of the strategic importance of the bridges to Wales, there is quite a lot of discussion with the Department for Transport”.¹¹¹

I have had a meeting with the Secretary of State, but I know that [...] officials have had many discussions with the department about the bridges, the tolls, and the impact, and what happens when the concession period and the maintenance period end, and what happens in the future.¹¹²

105 See paragraph 5.

106 Severn Bridges Act 1992, Part 2, Section 6

107 *Ibid.*

108 £1.8 billion at today’s prices.

109 HL Deb, 19 July 2010, cols WA180

110 Q 192

111 Q 240

112 Q 240

Toll prices following handover

71. Under the Severn Bridges Act, once the Severn Crossings return to public ownership the Highways Agency may continue to levy tolls for a further five years to establish a maintenance fund for both crossings.

72. Witnesses agreed that this was an “ideal opportunity to introduce flexibilities to the pricing structure”.¹¹³ The three main options for the future strategy in relation to the toll were set out:

- Removing the toll;
- Retaining the toll at the current level with the money earmarked for transport infrastructure improvement; or
- Reducing the toll—this would offset some of the other increases in the cost of road transport while providing an income stream.

73. We heard a range of views regarding the future of the toll prices. The majority of witnesses recognised the need to retain a toll in order to ensure that the maintenance needs of the crossings were met. The Freight Transport Association commented that it understood:

... that once back in public ownership the integrity of the Crossing must be maintained. The revenue for this should rightly come from the user.¹¹⁴

Denise Lovering, Director of Glenside Commercials accepted that “there has to be a toll, but at a lower level, and that is to maintain the superstructure and perhaps the people who have to take it”.¹¹⁵

74. Witnesses commented that the Government had to resist “the temptation of looking to cash in from revenue from unrelated artificially high charges”.¹¹⁶ Denise Lovering agreed that the crossings should not be seen as a “cash cow” for the Government.¹¹⁷

75. Many of the witnesses argued that the toll should be reduced to a “much fairer level”¹¹⁸ or to a level that would cover the operational and maintenance needs of the crossings. Chris Yewlett from the Chartered Institute of Logistics and Transport (UK) Cymru Wales noted that the maintenance of the bridge would be a “small fraction of the current toll compared with the original construction”.¹¹⁹ Dr Andrew Potter agreed that “If you charge the toll just to cover maintenance on an annual basis, that would keep that out of the public purse and find a way of funding it by users”.¹²⁰

113 Ev 56

114 *Ibid.*

115 Q 109

116 Ev 56

117 Q 70

118 *Ibid.*

119 Q 47

120 Q 33

76. Other witnesses argued for a continuation of the current level of tolls, with the money earmarked for specific infrastructure work in South Wales.¹²¹ Robin Smith of the Rail Freight Group stated that the tolls:

... should be retained at a reasonable level [...] and the money hypothecated towards a second rail crossing.¹²²

This is an interesting proposal which could bear further examination.

77. In addition, the National Alliance Against Tolls and the Campaign Against Severn Tolls (CAST) argued that the tolls should be abolished:

Tolls should be removed and the costs of [...] future maintenance and repair should come from the £50 billion that roads users pay in taxes.¹²³

78. The Deputy First Minister for Wales recognised that a range of options existed and agreed that there was a debate to be had over the future strategy of the crossings:

You could get to a point at which the toll is pretty low, or you could say, ‘This is an opportunity to have investment in the wider transport infrastructure’. Provided that the money was invested in the wider transport infrastructure, and not just put into a general pot—which would, presumably, be the Treasury pot—you could have a debate about which one of those options you would choose.¹²⁴

79. We discussed the possible levels that a future toll could be set at with Jim Clune, General Manager of Severn River Crossing Plc. He explained that the current total operating cost made up of maintenance and toll collection, including the toll collection infrastructure, was £12 million a year. In addition, the Highways Agency spent an average of £3 million a year on latent defects. Against this, over £6 million a month was currently collected in tolls.¹²⁵ On this analysis, this suggested that the Government could make a significant cut to the toll and still have sufficient funds to maintain both bridges to the current required standard. **With running costs of £15 million a year, and a current yearly income of £72 million, we estimate that the toll could be reduced to a fifth of its current level, to approximately £1.50 while allowing the crossings to remain self-financing. We recommend that the Government should seek to reduce the level of the toll at the earliest opportunity. We recognise, however, that at this level no “sinking fund” would be accumulated towards any future replacement of either bridge.**

80. The Minister refused to be drawn into an “individual fiscal analysis of the bridge”.¹²⁶ He did however, comment that:

It is not just about the maintenance of the bridge. It is also about investment in further infrastructure around it as well. Dartford is an example of that. For instance,

121 Q 32

122 Q 63

123 Ev 63

124 Q 234

125 Qq 211–218

126 Q 378

at Dartford, not only will the 50p increases over each year, or two years, enable us to do the free flow, but they will actually allow free use of the tolls when the congestion gets particularly bad so they are not chargeable.¹²⁷

Methods of Payments

81. It was widely acknowledged that the crossings need to adopt a ‘more up-to-date’ technology for the receipt of tolls. Various options were considered. In its evidence, the Chartered Institute of Logistics and Transport (UK) Cymru Wales set out options for future payment methods:

Smartcards—probably the most widespread technology currently available, such as the Oyster system in London and the concessionary pass in Wales. Any system may need to be ITSO compliant to meet national standards and offer inter-operability with other uses (e.g rail tickets);

Contactless payment—this technology is already entering the market with Barclaycard issuing cards capable of this for purchases under £15; and

Automatic Number Plate Recognition (ANPR)—used to enforce the London congestion charge. If the technology can be shown to be reliable at motorway speeds, this could enable the removal of the toll plazas to increase the flow along the motorways. However, consideration also needs to be given with this technology to enforcement of the tolls, for both UK and overseas vehicles.¹²⁸

82. In its written evidence, Cobalt Telephone Technologies stated that the “secret to successfully taking credit and debit card payments for the Severn Crossing is not to impede the flow of traffic”:¹²⁹

Any concept that involves actually plugging-in physical cards and entering PINs is operationally weak [...] What is required is a ‘light touch’ membership system where the motorist’s vehicle registration number is already associated with both their credit card details and their mobile telephone number.¹³⁰

83. The Minister agreed that there was a need for a more modern payment method at the crossings:

... I think that it is absolutely unacceptable that, in the 21st century, we have barriers to try and take money off of people when we need the money, but there are much better ways of doing it and we can learn from around the world how it has been done.¹³¹

127 Q 378

128 Ev 49

129 Ev w4

130 *Ibid.*

131 Q 345

84. Jim Clune, General Manager of Severn River Crossing Plc, recognised that free-flow technology was the “technolog[y] of the future”.¹³² However, he stated that the possibility of automatic number plate recognition technology had been considered, but explained that the current vehicle toll classifications on the crossings did not “lend themselves to automatic number plate recognition”:¹³³

The best example that I can give is that of a Vauxhall Corsa private car and a Vauxhall Corsa commercial van, both of which return an identical footprint from the Driver and Vehicle Licensing Agency. We could not distinguish between the categories. In addition, our investigations have revealed that the DVLA database is not 100% accurate. [...] Therefore, we have investigated the issue of automatic number plate recognition. It would need, primarily, a change in the toll classifications that were established in the Severn Bridges Act.¹³⁴

85. Introducing a more sophisticated payment system for the Severn Crossings would involve physically dismantling two toll plazas. Jim Clune admitted that “given that the end of our concession is now seven years away, the expense and the difficulty of converting at this stage would be totally disproportionate to the benefit”.¹³⁵ He admitted that Severn River Crossing Plc would be more inclined to invest if there was the possibility of a franchise to collect the toll once it returned to public ownership.¹³⁶

86. Mike Penning MP, Parliamentary Under-Secretary of State, Department for Transport, told us that he strongly favoured free-flow technology. In discussing the current position of Severn River Crossing Plc he stated:

I am concerned that there is a conflict of interest here between the end game for them being 2017 [...] and actual investment in free-flow tolling.¹³⁷

He expressed frustration that the current concession agreement made it “very, very difficult” to force the company to invest in free-flow technology.¹³⁸

I can force it on them, I understand—I think the Secretary of State could actually force it upon them, but then there will be the up-front costs which may well have to be incurred by the Highways Agency and my Department.¹³⁹

87. The Minister pointed out that introducing free-flow technology would reduce operating costs:

... there will be substantial savings should you have free-flow because you don’t have the toll booths, you don’t have the costs of actually banking all that coin, and you

132 Q 173

133 Q 155

134 *Ibid.*

135 Q 175

136 Q 207

137 Q 343

138 Q 346

139 *Ibid.*

don't have the people collecting it and carrying it. It is a balance between the two and I can see huge benefits to actually having free-flow.¹⁴⁰

88. The Minister revealed that he was going to open negotiations with the company to investigate the possibility of introducing free-flow technology before the end of the concession in 2017.¹⁴¹

Future Ownership of the Crossings

89. Following the end of the concession, the UK Government will have responsibility for the operation and maintenance of the bridges. One of the bridges is entirely in England, while another is partly in England. However, owing to their significance, a number of witnesses argued that there should be shared responsibility between the UK Government and the Welsh Assembly Government.

90. In its evidence, the Road Haulage Association argued that due to the importance of the crossings to Wales and to ensure that any future strategy benefited the Welsh economy, the Welsh Assembly Government should “take responsibility” for the Severn Crossings.¹⁴² In its report, Aberystwyth University concluded that it was “anomalous and inequitable”¹⁴³ that the Severn Bridges Act 1992 vests sole power with the Secretary of State for Transport:

... there should at least be a co-decision framework involving the Welsh Assembly Government (WAG) and the Westminster Department for Transport.¹⁴⁴

Denise Lovering, Director of Glenside Commercials also advocated “some sort of co-working”.¹⁴⁵ While the Minister acknowledged that the crossings had a major effect on the Welsh economy, he considered them a “piece of British national infrastructure”.¹⁴⁶

91. The Deputy First Minister for Wales told us that that the Welsh Assembly Government would want to consider taking ownership of the bridges. He stated that the Welsh Assembly Government had raised the issue of ownership with the Department for Transport, although their response was that “it is too early to have that debate”.¹⁴⁷

92. The 2017 handover provides an unique opportunity to re-examine the pricing policy for the Severn Crossings. Once the bridge returns to public ownership and its current debt is paid off, the cost of maintenance and toll operation will be a small fraction of the current monies raised by the toll charges. **We believe there is a strong case for reducing the cost of the toll and urge the Government to implement this when they take ownership of the crossings. Annual accounts for the crossings should be transparent and publicly**

140 Q 370

141 Q 369

142 Ev w10

143 *The Severn Bridge-Taking its toll on the Economy?* commissioned by the Federation of Small Businesses, October 2010

144 *Ibid.*

145 Q 86

146 Q 383

147 Q 265

available, so that the public can differentiate between the operational and maintenance costs of the crossings and any profit made. The Government must not be tempted to use the crossings as a “cash cow” when it takes over responsibility for the crossings.

93. While we welcome the introduction of credit card payment facilities, the technology exists for more superior methods of payments, such as free-flow technology. The current vehicle classification system contained in the Severn Bridges Act does not allow such technology to be implemented. **We recommend that the Government amends the vehicle classification system contained in the Severn Bridges Act 1992 so that free-flow technology can be implemented as soon as possible. We believe there is a strong case to invest in free-flow technology now. We recommend that the Government pays the concessionaire to implement it, with these costs recouped from future profits when the concession has expired.**

94. **We welcome the UK Government’s recognition of the importance of the Severn Crossings to the Welsh economy and its transport infrastructure. There must continue to be a close working relationship between the Department for Transport and the Welsh Assembly Government over the future strategy for the crossings.**

95. **We look forward to regular updates from the Department for Transport regarding its future strategy for the Severn Crossings.**

5 Conclusion

96. The Severn Crossings are essential to the Welsh economy. There is the perception, however, that the high cost of the toll is detrimental to businesses in Wales and to the development of the Welsh economy and discourages traffic between England and Wales. The Government must ensure that it takes note of the economic impact study commissioned by the Welsh Assembly Government.

97. Our inquiry has demonstrated the inflexibility contained in the Severn Bridges Act 1992 and the concession agreement between the Government and Severn River Crossing Plc. This has made it difficult for the Government to respond to the current economic climate and freeze the toll. The Government must learn from the issues that have resulted as a result of the drafting of the Act for future Private Finance Initiative projects.

98. Modern technology must be implemented on the crossings to enable a smooth journey with the least amount of disruption to the users. The Government should pay for improving the methods of payment. This should happen soon.

99. The Government must develop urgently a future strategy for the crossings. This must be based on discussions between the Government, the Welsh Assembly Government and Severn River Crossing Plc. The transfer to public ownership at the end of the concession period in or around 2017 provides an unique opportunity for a new tolling regime. The current tolling prices should be reduced and concessions for those who depend on the crossings for their livelihood could be introduced.

Conclusions and recommendations

Impact of the Toll on the Welsh Economy

1. The Severn Crossings provide a key link in Wales' transport and economic infrastructure. We note that successive Governments have never undertaken a study of the economic and social impact of the Severn Crossings toll charges. There is therefore no quantitative evidence as to the effect of the toll on the economy of Wales. (Paragraph 35)
2. We recognise the concerns of business about the impact of the high cost of the toll. Some businesses argue that the toll represents a barrier to business activity across the bridge, hampering the development of Welsh businesses and acting as a deterrent to inward investment into the country. In particular, it was argued that the toll has a significant effect on the transport and logistics sector and on the tourism industry. However, no firm conclusion can be drawn without a comprehensive study to evaluate the impact of the toll. (Paragraph 36)
3. We welcome the Economic Impact Study commissioned by the Welsh Assembly Government. To ensure that it captures the full picture, the study should examine not only the elasticity of demand amongst current users, but also seek the views of companies in Wales who argue it is not financially worth their while seeking work in England. We also recommend that the study includes companies that have located on the English side of the crossings and ascertain the extent to which their decision was influenced by the level of the toll. (Paragraph 37)
4. We welcome the Department for Transport's commitment to consider the findings of the survey commissioned by the Welsh Assembly Government. We look forward in due cause to debating the Government Response to this Committee's Report on the floor of the House. (Paragraph 38)

The Severn Crossings under the Concession Agreement

5. We welcome the introduction of a facility to make payment of the Severn Crossings toll by credit cards; albeit many years after it should have. The Severn Crossings are a gateway into Wales and provide a first impression to many travellers. For too long, the first impression of visitors was this antiquated system. This unacceptable situation went on too long. The introduction of a contemporary payment method is essential and not before time. (Paragraph 61)
6. We are disappointed that a permanent system is not yet in place. Severn River Crossing Plc maintain that a permanent system will be installed and active by the end of the first quarter of 2011 at the latest. The public must be informed of developments and the system must be available in as many toll plazas as possible to make the credit card payment system accessible to the most number of users. We will continue to monitor developments closely. (Paragraph 62)

7. We are disappointed that it has not been possible to freeze the toll for 2011. The inflexibility of the Severn Bridges Act, as originally drafted, does not allow the Government to impose a level of toll charge as it sees fit in the current economic climate without incurring liability for the taxpayer. The Government should take responsibility for the failure of civil servants twenty years ago to future-proof the legislation. (Paragraph 66)
8. There seems to be no appetite on the side of Severn River Crossing Plc to reduce the toll prices and extend the concession beyond the current forecasted end date of 2017. The responsibility of the company to its shareholders and debtors puts it in conflict with the needs of the users of the crossings. This will end when the Severn Crossings return to public ownership. (Paragraph 67)
9. We make no comment on the merits of using private sector finance to deliver public sector infrastructure. However, it is important that the Government learns from the inflexibility of the Severn Bridges Act 1992 and the concession agreement when agreeing future contracts. (Paragraph 68)

Future of the Severn Crossings

10. With running costs of £15 million a year, and a current yearly income of £72 million, we estimate that the toll could be reduced to a fifth of its current level, to approximately £1.50 while allowing the crossings to remain self-financing. We recommend that the Government should seek to reduce the level of the toll at the earliest opportunity. We recognise, however, that at this level no “sinking fund” would be accumulated towards any future replacement of either bridge. (Paragraph 79)
11. We believe there is a strong case for reducing the cost of the toll and urge the Government to implement this when they take ownership of the crossings. Annual accounts for the crossings should be transparent and publicly available, so that the public can differentiate between the operational and maintenance costs of the crossings and any profit made. The Government must not be tempted to use the crossings as a “cash cow” when it takes over responsibility for the crossings. (Paragraph 92)
12. We recommend that the Government amends the vehicle classification system contained in the Severn Bridges Act 1992 so that free-flow technology can be implemented as soon as possible. We believe there is a strong case to invest in free-flow technology now. We recommend that the Government pays the concessionaire to implement it, with these costs recouped from future profits when the concession has expired. (Paragraph 93)
13. We welcome the UK Government’s recognition of the importance of the Severn Crossings to the Welsh economy and its transport infrastructure. There must continue to be a close working relationship between the Department for Transport and the Welsh Assembly Government over the future strategy for the crossings. (Paragraph 94)

14. We look forward to regular updates from the Department for Transport regarding its future strategy for the Severn Crossings. (Paragraph 95)

Conclusions

15. The Severn Crossings are essential to the Welsh economy. There is the perception, however, that the high cost of the toll is detrimental to businesses in Wales and to the development of the Welsh economy and discourages traffic between England and Wales. The Government must ensure that it takes note of the economic impact study commissioned by the Welsh Assembly Government. (Paragraph 96)
16. Our inquiry has demonstrated the inflexibility contained in the Severn Bridges Act 1992 and the concession agreement between the Government and Severn River Crossing Plc. This has made it difficult for the Government to respond to the current economic climate and freeze the toll. The Government must learn from the issues that have resulted as a result of the drafting of the Act for future Private Finance Initiative projects. (Paragraph 97)
17. Modern technology must be implemented on the crossings to enable a smooth journey with the least amount of disruption to the users. The Government should pay for improving the methods of payment. This should happen soon. (Paragraph 98)
18. The Government must develop urgently a future strategy for the crossings. This must be based on discussions between the Government, the Welsh Assembly Government and Severn River Crossing Plc. The transfer to public ownership at the end of the concession period in or around 2017 provides an unique opportunity for a new tolling regime. The current tolling prices should be reduced and concessions for those who depend on the crossings for their livelihood could be introduced. (Paragraph 99)

Formal Minutes

Tuesday 14 December 2010

Members present:

Mr David T. C. Davies, in the Chair

Guto Bebb
Alun Cairns
Geraint Davies
Jonathan Edwards

Mrs Siân C. James
Jessica Morden
Mr Mark Williams

Draft Report (*The Severn Crossings Toll*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 99 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report in addition to that ordered to be reported for publishing on 14 October, 19 October and 4 November.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Tuesday 11 January at 10.00 am

Witnesses

Tuesday 19 October 2010

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Nia Davies, Federation of Small Businesses, **Professor Peter Midmore**, Aberystwyth University, **Dr Andrew Potter** and **Chris Yewlett**, Chartered Institute of Logistics and Transport (UK) Cymru Wales Ev 1

Ian Gallagher and **Michael Webb**, Freight Transport Association, **Denise Lovering**, Glenside Commercials, and **Robin Smith**, Rail Freight Group Ev 9

Thursday 4 November 2010

Jim Clune and **James Rawle**, Severn River Crossing Plc Ev 18

Ieuan Wyn Jones AM, Deputy First Minister for Wales and Minister for the Economy and Transport, **James Price** and **Claire Severn**, Welsh Assembly Government Ev 27

Tuesday 9 November 2010

Rick Longford, Monmouthshire County Council, **John McGoldrick**, National Alliance Against Tolls, and **Councillor John Warman**, Campaign Against Severn Crossing Tolls Ev 34

Mike Penning MP, Parliamentary Under-Secretary of State for Transport, **Jeremy Rolstone**, Department for Transport and **Graham Bowskill**, Highways Agency Ev 41

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1	Campaign Against Severn Tolls (CAST)	Ev 49
2	Chartered Institute of Logistics and Transport (UK) Cymru Wales	Ev 49, 74
3	Federation of Small Businesses	Ev 55
4	Freight Transport Association	Ev 56
5	Glenside Commercials Ltd	Ev 60
6	Monmouthshire County Council	Ev 61
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List of additional written evidence

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1	Associated British Ports	Ev w1
2	Rod Bowden	Ev w2
3	Mike Brain	Ev w2
4	Capital Region Tourism	Ev w2
5	Cobalt Telephone Technologies	Ev w4
6	Right Rev John Davies, Bishop of Swansea and Brecon	Ev w6
7	Lucy Huff	Ev w7
8	Institution of Civil Engineers	Ev w7
9	J. M. Locke	Ev w8
10	Midland Expressway Limited (M6 Toll)	Ev w8
11	Mark Pendleton	Ev w10
12	Road Haulage Association	Ev w10
13	South West Wales Integrated Transport Consortium	Ev w12
14	Kenneth Fogarty, Toll Text International Limited	Ev w13
15	Keith Wright	Ev w13

List of Reports from the Committee during the current Parliament

Session 2010–11

First Special Report	Welsh prisoners in the prison estate: follow up: Government Response to the Committee's Ninth Report of Session 2009-10.	HC 398
Second Special Report	Wales and Whitehall: Government Response to the Committee's Eleventh Report of Session 2009-10.	HC 399
Third Special Report	Cross-border provision of public services for Wales: follow up: Government Response to the Committee's Tenth Report of Session 2009-10.	HC 419
First Report	The implications for Wales of the Government's proposals on constitutional reform	HC 495
Second Report	The proposed amendment of Schedule 7 to the Government of Wales Act 2006	HC 603

Oral evidence

Taken before the Welsh Affairs Committee

on Tuesday 19 October 2010

Members present:

David T. C. Davies (Chair)

Guto Bebb
Alun Cairns
Geraint Davies

Nia Griffith
Jessica Morden

Witnesses: **Nia Davies**, Policy Officer, Federation of Small Businesses, **Professor Peter Midmore**, School of Management and Business, Aberystwyth University, **Dr Andrew Potter**, Policy Officer, Chartered Institute of Logistics and Transport (UK) Cymru Wales, and **Chris Yewlett**, Chairman, Chartered Institute of Logistics and Transport (UK) Cymru Wales, gave evidence.

Chair: Good morning. May I begin by introducing myself? I am David Davies, Chair of the Welsh Affairs Committee. For the record, would you introduce yourselves, as well?

Chris Yewlett: I am Chris Yewlett, Chair of the Chartered Institute of Logistics and Transport in Wales.

Dr Andrew Potter: I am Andrew Potter, policy officer for the Chartered Institute of Logistics and Transport in Wales.

Nia Davies: I am Nia Davies from the Federation of Small Businesses.

Professor Peter Midmore: I am Peter Midmore, Professor of Economics at Aberystwyth University.

Chair: Thank you and welcome. I should say by way of a declaration of interest, that in my past life as a haulage manager I was involved in many of the organisations giving evidence here.

I will begin by asking Alun Cairns to start the question session.

Q1 Alun Cairns: My first question is to Nia Davies of the FSB. Why did you in particular choose to assess the impact with Aberystwyth university, and what were the main findings of the report?

Nia Davies: We have heard anecdotally from our members that there is an economic impact. We have heard in debates here and in the Assembly that the toll on the bridge is having a negative effect on industry and the growth of businesses. However, we did not have any evidence to show that. Basically, we wanted something either to confirm or not that assumption, so we commissioned Aberystwyth university to do so.

Q2 Alun Cairns: What were the main findings about the impacts on members?

Professor Peter Midmore: Broadly, there is an impact. I shall say a few words about how we went about finding the evidence, as that helps put it in context. There are about 250,000 to 300,000 businesses in the area that we looked at along the M4 corridor. We looked at both sides of the crossing, because we wanted to assess whether the impact was differential between the Greater Bristol region and the south Wales region.

We knew beforehand that a lot of those businesses would not be affected by the bridge, due to the nature

of what they do. We concentrated on sectors where we thought that there would be an impact. We were able to afford to carry out a telephone survey of about 200 randomly sampled businesses in different sectors. We got responses from about 140. Of those, about a third did not feel that their businesses were at all affected by the bridge tolls and did not rely on it critically for the operation of their businesses. About half felt that they were affected and about a fifth were pretty seriously affected. We focused on small business, so we were looking at the standard classification of SMEs.

Q3 Chair: What was your definition of small, Professor Midmore?

Professor Peter Midmore: The standard one: under 250 employees or a turnover of less than £5 million a year.

Q4 Alun Cairns: Can I press you a bit further? You said you focused on the sectors on which you felt it would have an impact. What were those sectors and why did you feel in the initial stages that there could have been an impact? Do you think it could be wider than the study you did?

Professor Peter Midmore: By looking at specific sectors and size of business, we tried to isolate where the toll is likely to have a very large impact. Large businesses that operate on a national scale can absorb the cost of tolls in their general transport overheads; for small businesses, particularly the ones that we think will have a significant impact on future jobs growth, the tolls may be a significant proportion of costs, which will constrain such businesses.

We looked at sectors that are likely to contain small businesses, which include the retail, wholesale, transport, motor trade and construction sectors. There is a list in the report, to which I ought to refer, so that I don't miss anybody out. Manufacturing is in there as well, and hotels and catering, too. So, that's the rationale.

Q5 Geraint Davies: Given that the economy on the English side of the bridge—the economy that may be accessed from Bristol versus the other side—is a lot bigger, is there any reason to believe that companies are locating on that side of the river, as opposed to the

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Welsh side, because of the toll, or don't you think that that's something that you can answer?

Professor Peter Midmore: We didn't uncover any evidence of that, but, if you had a choice, the Bristol side is probably appealing. There is a balance, obviously, because the costs of locating are perhaps higher in terms of rent, services and so on, but you are closer to a larger market by locating on that side of the bridge. I think that that effect might be stronger than the effect of the tolls in general terms.

Q6 Geraint Davies: You said that a fifth of the sample were seriously affected by the toll. Is there any way of knowing or guessing, if there wasn't a toll, how many more people would be located in Wales? I guess there isn't, so all we've got is the settled decisions of people to stay in Wales, or to go to Wales, given the toll. What would happen if either toll went up or down? Does your study show any elasticity in the number of businesses that would come to Wales if the toll were lower, or that would leave Wales if the toll were higher?

Professor Peter Midmore: The study wasn't designed to explore that particular question. I could comment, but not on the basis of evidence, so I probably shouldn't. Firms have certainly reported an impact on their competitors. The first company that we phoned was a non-respondent on the basis that they had just gone into liquidation.

Q7 Geraint Davies: Did anyone talk about the balance between the relative property, rental and wage costs on the Welsh and English sides and whether that was offset in any sense by the toll?

Professor Peter Midmore: No. We did ask them about their costs. We asked about the proportion that the toll made up of their costs, and we asked them what were the most significant other elements of their costs, but I don't think that that was mentioned at all. Things such as fuel were certainly mentioned, but not rents.

Q8 Geraint Davies: Finally, many years ago my father, D. T. M. Davies, whom I mentioned at the previous meeting, worked on economic development for the Wales Office, and he did a study that showed that there was a clear integration between the economies of south-west England and south Wales. Is the toll, and the size of the toll, acting as a barrier to that economic integration, or don't you have evidence of that?

Professor Peter Midmore: One piece of evidence shows that there is virtually no movement between the businesses that we surveyed. There is no labour coming across the bridge.

Q9 Geraint Davies: No labour?

Professor Peter Midmore: No labour crossing backwards and forwards. I guess that were we to survey the public sector, we would find that there is some movement—I know anecdotally of many people who cross from Bristol to south Wales, or south Wales to Bristol, by train—but we were specifically concerned with the private sector. I suppose that it is possible that, because of the isolating effect of the toll, there is more integration within the south Wales

economy than there would otherwise be. I think that the prospects for growth for small firms rely mainly on being able to exploit ever larger markets. If there is an effect, I think that the toll is acting as a nudge, in the negative sense, and stopping that from happening.

Q10 Geraint Davies: So if there was no toll, would there be a very different situation in terms of integration, labour movement and all this stuff?

Professor Peter Midmore: I don't know. I think that because it affects sectors differentially—it affects the motor trade and transport sector, and I suppose, to an extent, tourism—that might increase the flow of transactions that are associated with crossing the bridge in either direction. But my sense is that, in overall terms, it is not a particularly significant barrier.

Q11 Chair: Perhaps I could bring in the Chartered Institute of Logistics and Transport, and ask you a what if question? What if the bridge hadn't been built, and, perhaps more pertinently, could the bridge have been built without a toll? I think that that is the question. Could we have actually built a bridge like that, at that sort of expense, without a toll?

Chris Yewlett: Obviously the original bridge from the 1960s was built on the back of a toll. There was actually a connection before that, which was the rail connection, so there was an alternative link. That is in contrast, for example, to the Humber, which was totally dependent on paddle steamers that were affected by tides, like the Aust ferry. Daily commuting across the border would have been possible without the bridge.

Q12 Chair: But only by train. Well, it was possible, as you say, with the Aust ferry.

Chris Yewlett: Not for commuting, no, and you couldn't move heavy freight that way.

Q13 Chair: I have talked to people who remember cars piled all the way back through Chepstow.

Chris Yewlett: That is right. The real issue is the building of the second bridge, which, it was decided, would be financed by compositing the two together and allowing the company that built the second bridge to take all the tolls on the first bridge. Whereas, if we hadn't built the second bridge, the first bridge would have effectively been paid off by now. It would have been congested, but it would have been paid off. The whole toll cycle, if you like, was projected further decades into the future.

Q14 Chair: The second bridge has had to be closed quite a lot. It is not as reliable as the first bridge. It gets closed because of high winds, ice, inclement weather and maintenance. There would have been periods of time when Wales could have been shut off for a couple of days if we hadn't have gone ahead and built the second bridge. Is that not correct?

Chris Yewlett: I am not quite sure about that. The first bridge was certainly very vulnerable to high winds and still is, I think. That was one of the factors that were taken into account. The design was aerodynamic to allow the winds to help support it rather than blow it down, which was fine for the structure of the bridge,

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but it did not actually do very much for the traffic travelling over it. High-sided vehicles frequently had to be banned. The newer bridge has had one or two problems—the icicles problem in winter was the last one—but it has had much less closure, I think, than the original bridge.

Q15 Chair: Would any of you have a complaint about the principle of tolling, or is it just that the tolls are too high?

Nia Davies: Generally, in terms of membership of the FSB, we don't support tolling, because we see it as an extra tax on growth in the economy and a tax on businesses specifically.

Q16 Chair: But do you accept that the bridge—probably the second bridge at least—would not have been built without a toll?

Nia Davies: I completely agree. If there was a choice between not having a bridge and having a bridge with a toll, obviously we would go for the second option. The situation is, now that it has almost been paid off, or will be in the next five or six years' time, what do we do afterwards?

Q17 Chair: That is one of the things that the Committee is looking at. That is a very important question, but you would accept that it is better to have a bridge with a toll than no bridge and no toll, or even one bridge and no toll.

Nia Davies: Of course.

Chris Yewlett: There are questions of equity floating around here. The tradition in Britain has been, and still largely is, that motorways and major roads are free of charge—with the exception of the midlands M6 Toll road, also known as the Birmingham Northern Relief Road. So there is an argument to say that building the first bridge would not have happened if we hadn't had the toll—especially in the economic circumstances of the time—so we wouldn't have actually had the bridge. We then had the bridge, and it proved inadequate in terms of capacity. This is also true of quite a lot of motorways that parallel the trunk roads around England. Expansion of those motorways—additional lanes and so on—is regarded as part of the day-to-day or year-to-year expenditure of the Department for Transport. Putting a new bridge into Wales could be argued to be an expansion to the existing one. We have paid for the existing one, so why should we have to pay for the expansion when other people do not have to pay for improvements to their roads?

Chair: I suppose the counter argument, and this is not a discussion that I can really get into, is that those trunk roads very often are not built. It is not a day-to-day or year-to-year issue but a decade-to-decade or century-to-century one, some people would argue.

Q18 Jessica Morden: Can I ask to you expand a bit on the impact of the tolls on the transport industry, particularly on the hauliers, based on what you have found in the study? Presumably they are the worst affected.

Professor Peter Midmore: There is variation across the sectors, which has been described in the full

report. The transport sector was the one where everyone—pretty much 100%—was reporting impacts on competitiveness, raising of costs and so on as a result of the toll. We tried to drill down into what people said, because obviously if you ask people, “Is it bad for your competitiveness?” they will say, “Yes, of course it is,” but the question is how much. Some of the people who were reporting very serious impacts were not paying a huge amount, but some people who were reporting moderately important impacts on competitiveness were paying more. Some small companies were paying very high amounts. These are at the extreme, but that is the sector that is worst affected.

Like any good survey, it finished with a question asking what else people would like to add. It was in that section particularly that people were asking whether there could be some kind of discount for multiple use, which is a feature of toll bridges in other places.

Q19 Jessica Morden: There is not any kind of concession for hauliers at all, is there?

Professor Peter Midmore: None, apart from that you can have an account, so you have a TAG and you can go through more quickly with an electronic device.

Q20 Jessica Morden: But that does not give you any financial discount.

Professor Peter Midmore: No.

Q21 Jessica Morden: And do you think that there is an argument for having, say, off-peak travel for hauliers so that you could reduce congestion?

Professor Peter Midmore: That raises the interesting question of what the toll is for. Is it to fund the infrastructure, to control congestion, or is it a means of controlling emissions? It is the whole package, but there is fuel duty and road fund licence and tolling on top that. If you want to use a road charging system to achieve all three of those, you will probably miss at least one of them, because to some extent they are incompatible.

Interestingly, the viaduct at Millau in southern France, which goes across the Tarn, costs about the same amount. They have a peak rate for tolls in the summer season so their tolls go up to clobber the holidaymakers and increase their revenues. Another interesting fact about it is that although it was roughly the same cost, the concessionaires have a 75-year concession. The tolls operate in both directions and they are higher than the ones across the Severn bridge, so in some ways we should count ourselves lucky.

Q22 Jessica Morden: What conclusions did the report reach regarding the impact on tourism?

Professor Peter Midmore: As well as carrying out the survey and doing a comprehensive study of tolls elsewhere, we had a stakeholder group to look at the initial results and provide comment and feedback, to provide us with a reality check. The tourism representative thought that there was not such a large impact on tourism, because if you look at things rationally, to get to comparable beaches in Cornwall you are involved in a lot more time and a lot more

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expenditure on fuel than if you pay the toll to go across the bridge. Coming back to the fashionable idea of the nudge, I think that may be deflecting people away not because of the proportionate cost of the toll but simply because people object to paying. They think, “Oh, I’m not going there, there’s a toll.”

Chair: Thank you, professor. I am sorry to cut you short, but I am keeping an eye on the clock and the number of questions we have got. Can I appeal to everyone for fairly brief questions and answers?

Q23 Alun Cairns: I want to follow Jessica Morden’s question on tourism. What impact has this had on the airport in Cardiff, in terms of outward travel? I know that it has run some campaigns in the past whereby it would refund Severn toll charges. That is either purely a marketing ploy, or something that it saw was an issue that needed to be addressed. Which would you say it was?

Professor Peter Midmore: We were surveying small business. It was quite a small sample, and we didn’t pick up any businesses that had any dealings with the airport, so there was no evidence that we uncovered. That doesn’t mean that it doesn’t exist, but we didn’t find any.

Dr Andrew Potter: From our perspective, I would say that if you look at the two airports, Bristol tends to attract more services because it has a larger catchment area generally. It has similar services to Cardiff to start with, so there is a bit of competition, but people tend to gravitate to their local airport rather than necessarily come across the bridge.

Q24 Geraint Davies: Mr Yewlett, do you agree that the toll acts as an unfair tax on the motorway system into Wales, which constrains the south Wales economy and south Wales airport unfairly, and that that does not apply to motorways across England?

Chris Yewlett: Yes. As I said earlier, we have a general policy in this country not to have toll motorways. Professor Midmore mentioned the Tarn bridge but, of course, France has a network of toll motorways and people are used to paying tolls at regular intervals. So, you could argue quite strongly that it is unfair.

My personal view is, as I said earlier, that there is some justification for financing a bridge out of a toll in the first place. However, when you are trying to expand the infrastructure on what is now an accepted European corridor—namely the M4, which links continental Europe to southern Ireland, as well as south Wales, of course—there is a case for saying that, if that needs to be expanded, that should be a general rather than a specific cost.

Q25 Geraint Davies: I represent Swansea, where 38% of jobs are in the public sector. That is partly because of the distance to Swansea, the time it takes to get there, and the cost in Swansea for inward investors. From the point of view of inward investors, would you accept that taking away the toll would make investing in south Wales more attractive, at a time when we need more private sector investment because public sector investment is being cut?

Chris Yewlett: There are two aspects to that. One is the psychological marketing aspect and the other is the economic freight aspect. The psychological marketing aspect has come into play with motorway building, where a lot of motorways were built on the basis that they would take heavy traffic. In fact, one of the things they offered was faster travel for management, who might well be based in one part of the country and want to go and set up another operation elsewhere. It is the speed of travel as much as the cost that accounts for the marketing point of view. Equally, not having a toll at all is a marketing benefit.

Q26 Geraint Davies: The value of inward investment as a result of taking the toll off completely might be much more than the toll itself.

Chris Yewlett: It could have an impact, yes, but that is something that the economists would have to analyse carefully. I am not really an economist.

Q27 Geraint Davies: Have you any views on that, professor?

Professor Peter Midmore: I am afraid I have to go back to the design and study. As you are probably aware, the Assembly Government are going to commission a piece of research into the economic impact. Hopefully, it will focus on those specific questions.

Q28 Chair: Mr Yewlett, just before I call Guto Bebb, I want to say that I thought that you raised an interesting point. I believe that the European Union occasionally helps to fund infrastructure that links EU countries—I am sure I have seen the signs at the sides of new motorways in Europe. Did they give any funding to the link that, at the end of the day, links Ireland and Wales to the rest of the EU?

Chris Yewlett: I must admit that I don’t know the immediate answer to that. Obviously not to the original bridge, because that was in the early days, before the EU came on the scene.

Q29 Chair: This may be a shot in the dark, but does the EU offer any funding or support to other trans-European routes? If so, is there any argument for the Government’s trying to ask it for funding to subsidise the costs of the toll?

Chris Yewlett: I’m sure they have provided money for assorted works on assorted roads. One of the conditions, usually, is that you put up a sign on the road that says that European money is being spent here, complete with the European flag. These do go up, yes.

Chair: Yes, I always thought that it should read, “European taxpayers’ money”. That is an interesting point and one that we might explore further at some point.

Q30 Guto Bebb: Professor Midmore, you say in your report that the impact of the tolls is more severe on businesses in south Wales than in Bristol and the west country. Could you expand on why that is the case? Is it because the toll is one way only?

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Professor Peter Midmore: No, because all journeys usually involve going both ways across the bridge. I know that some people who are ideologically opposed to tolls do the reverse journey through Gloucester and Usk, but hopefully they are a minority. This comes from an analysis of the responses so it has to be by inference. As a result of first, being a little bit more peripheral and then having, as a main link into wider UK and European markets, a toll bridge, it is more likely to have an impact. Of the businesses that weren't affected by the toll, quite a number were on the Greater Bristol side. Some reported more positive impacts such as, "Oh well, a lot of people come across the bridge to use our services." I think one was a wedding dress shop, for example, which attracted people from all over south Wales who obviously came across the bridge. That is really the basis for that conclusion in the report.

Q31 Guto Bebb: Would you argue that the findings were statistically robust?

Professor Peter Midmore: I think they are indicative. I would be sticking my neck out to say that they were statistically robust, but certainly in the absence of any other information, this is the best information that currently exists. I think the broad orders of magnitude are probably right.

Q32 Guto Bebb: The Federation of Small Businesses has stated that you have an opposition to the idea of tolls, although you would prefer a bridge with a toll rather than no bridge at all, which I thoroughly understand. It has been argued that the M4 is a strategic European corridor. Obviously, if you travel through Europe there are tolls in many countries. Is there a real issue in terms of having a toll? Isn't the real issue the fact that the M4 needs to be upgraded in south Wales?

Nia Davies: When we commissioned a study we said that, in terms of UK policy, we were against tolls because we see them as an unfair tax. But looking at the findings and thinking about how you could use the £70 million a year revenue from the bridge, you have to look at it in terms of an opportunity. Would it be best to spend that, for example, on ring-fencing infrastructure projects? Would it be better, for example, to upgrade the M4 in south Wales? Also, we know the terms of the bypass for the M4 by Newport. That has been scrapped because there is not enough money. Our initial policy is that we do not want the tolls. But there again, would there be some smarter way to use the tolls to negate the fact that it is far away from Europe, London and bigger markets as well? In terms of other bridges, such as the Humber bridge, we would still be looking at not having tolls. But, especially as there is more of an impact on the Welsh side, we would like to be able to make sure that, if the tolls stay, they could be linked to and invested in infrastructure.

Q33 Guto Bebb: But from an ideological point of view, post 2017, you would be willing to consider a continuation of the tolls as long as the money was earmarked for specific infrastructure work in south Wales?

Nia Davies: Considering the final decision of the court, then that is something that we have definitely been looking at, as long as there is some sort of structure in place where it is reinvested to help Welsh businesses, or businesses on both sides of the bridge. I think that if something were put in place, we would have to rethink our position on all tolls.

Dr Andrew Potter: That would be our view as well. We don't actually have an opposition, as such, to having a toll on the road. It has got to be the right level of toll and it may help, for instance, keep the maintenance costs off the public purse. If you charge the toll just to cover maintenance on an annual basis, that would keep that out of the public purse and find a way of funding it by users. It has to be right level of toll, not necessarily the level it is at the minute.

Q34 Chair: I think you have answered my next question, which is whether it is the tolls in principle that you are against or the level. If I understand it rightly, the CILT is not against tolls per se but just against the level on the Severn bridge. The FSB is pretty well opposed to tolls completely. Is that a fair summary of your slightly different points?

Nia Davies: In general, but obviously with the findings we could perhaps look at that in terms of the Severn bridge.

Q35 Chair: Have any of you had discussions with the Secretary of State for Wales or Secretary of State for Transport about the level of tolls on the bridge?

Dr Andrew Potter: Not ourselves, no.

Q36 Chair: Professor Midmore, is it your understanding that the Government could freeze the tolls if they wanted, within the terms of the existing Act?

Professor Peter Midmore: I am not sure on that point. There is a contract with the concessionaire. I think we are stuck with that until the concession ceases. As the legislative authority, obviously the Government could change the law if they want to and maybe change the contract. I don't know. I think that would send the wrong signal.

Chair: I don't know that we could change the contract. That is something we are investigating.

Q37 Geraint Davies: Mine is a similar question. If you were a builder in south Wales and there was a toll on the bridge, you would simply not look for work in Bristol, would you? If there were not a toll, you would. Would you agree with that?

Dr Andrew Potter: Yes. In our submission we make perfectly clear that there is an impact, certainly locally, on the traffic flows that go across. We were talking in terms of logistics providers, who might not want to compete for traffic that starts in Bristol and then goes to London, because they still have to position the vehicle empty across and pay the toll. Yes, there would be an impact and it does constrain. We also picked up, for instance, the employment market. Again, if you live in Chepstow and want to work just across the river—Malmesbury or somewhere like that—you have the additional toll cost that probably stops you doing that.

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Q38 Jessica Morden: Just a quick one on the methods of payment of tolls, which is obviously quite controversial in that people are unable to use debit and credit cards. Severn River Crossing plc brought in a temporary measure for the Ryder cup for people to pay by debit and credit cards and seem to have removed it. Is that something that impacts on your members?

Dr Andrew Potter: A lot of our members, certainly on the logistics side, operate with TAGs, so there is less of an impact on them. For a person who travels across there is the inconvenience factor of being able to pay only in cash, rather than use a debit or credit card. It would be interesting to see what impact using credit cards had on the toll during the Ryder cup period, whether it actually helped the process or slowed it down. Going forward, there is a need to look at the new technologies that are coming in; things such as contactless payment, which could offer a quicker way of paying than having to stop and hand over cash, or even put cash into the basket, if you have the right money.

Chris Yewlett: There is a particular problem with the current level of tolls, not an economic problem but a practical one. Throwing pound coins in the basket does not work well if you have a toll of £5.70. It requires a fistful of change. Most people end up stopping and exchanging a paper note with the toll keeper.

Q39 Chair: Were you all disappointed at the decision to remove the hand-held card readers?

Chris Yewlett: I personally would be disappointed. I know there is always an issue with credit cards, in that the bank in question demands a percentage. I would have thought that an operation like the Severn bridge could have negotiated a reasonable percentage.

Q40 Chair: Do you know what the percentage is?

Chris Yewlett: I have a feeling it is 2% but I am not an expert.

Guto Bebb: Perhaps they could sign you up as the next speaker for the FSB.

Chris Yewlett: Payment by credit card was originally introduced on the basis that credit cards generate more business. The other issue of course is that cash handling is a very expensive operation. Many of the supermarkets, for example, are more than happy if people pay with their credit cards, because it speeds things up at the tills and it speeds up their cash flow, too—the money is electronically credited immediately, and not when the cash is banked.

Going back to what I said earlier about image, the bridge's payment system does seem perverse and it has a very negative impact. There are problems, not with regular logistical travellers, but with occasional travellers and holidaymakers, especially those from overseas, who arrive without enough cash. I am not even sure that there is a facility for such people. They were talking about installing a cash point, so at least people would not be sent away. It only takes one or two events such as that to be reported in the press for there to be a very negative effect on the tourism image.

Q41 Chair: We know that they managed it for the Ryder cup, so, obviously, the necessary changes to the law have been made to allow credit cards to be taken. During the period of the Ryder cup, somebody was picking up the commission on the credit cards. Do you know anything more about who was paying the commission, whether it was the card companies or the bridge?

Dr Andrew Potter: I do not know.

Q42 Geraint Davies: Just one general question. Are people concerned about the possible prospect of the Government, in essence, selling on the franchise and allowing new franchisees to raise the tolls as they like with a view to maximising revenue?

Professor Peter Midmore: The cost of the bridge is being paid for by the people who use it, so, on moral grounds, it should belong to them. More pragmatically, because it is within the gift of the Secretary of State for Transport in Westminster, it is probable that the Government in this Parliament will decide what happens to the bridge afterwards. The decision is likely to be, "This is a money-making proposition, so let's keep going." That happened, for example, when the Rotherhithe tunnel's concession ended. Motorists using the tunnel no longer pay a toll, they pay a user charge.

Geraint Davies: But, obviously, the franchisee's revenue gain would be Wales's economic loss.

Chris Yewlett: There is also the danger of loss of control. The original lengthy franchise was predicated on the fact that you had to fund the payment for the first bridge, and then you had to fund the payment for the building of the second bridge, so a toll had to be agreed for a certain period of time. If a franchise were agreed for an extended period, the Government of the day, whether in Wales or England, would lose control of the situation. That is the debate that you are having at the moment about what we can actually do. I would counsel against long-range franchises, which is an issue that also crops up in the rail industry.

Q43 Jessica Morden: Given devolution, do you think that it is anomalous that the bridge's ownership rests with the Secretary of State for Transport? Is there an argument for the Welsh Assembly Government and the UK Parliament being co-owners?

Chris Yewlett: There is an interesting geographical point, which is that the original bridge is entirely in England—people cross into Wales over the Wye bridge. The new bridge, of course, crosses at, for want of a better word, the international border. When they were built, both bridges were vested in "the Secretary of State", which is an interchangeable concept within Government. Now that there is a separate Welsh Assembly Government and National Assembly for Wales, you have to be a bit clearer about that. There is an argument to be had about co-ownership. I certainly think that Wales would look askance if it were suggested that the bridge is entirely owned by England or the Department for Transport who sometimes are not entirely clear whether they are operating as a UK body or an English regional body.

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Q44 Jessica Morden: Do you welcome the Welsh Assembly Government's saying that they will commission an economic impact assessment?

Chris Yewlett: Yes. As an academic, I would say that it is always a good idea to get the facts in before making a decision, so I would certainly support that.

Q45 Chair: Do I understand you correctly? Are you suggesting that the powers are vested in "the Secretary of State," but the Act does not make clear which Secretary of State? Or were you saying that the powers are clearly invested in the Secretary of State for Transport and not the Secretary of State for Wales?

Chris Yewlett: No, as I understand it, and I am open to correction—it is a long time since I looked at this—in Government "Secretary of State" is an interchangeable concept and powers and duties may be transferred from one Secretary of State to another by simple Order in Council. This is one of the few differences between a Secretary of State and a Minister, and you do not need an Act to transfer duties. For example, during the period of administrative devolution in Wales, when increasing powers were given to the Secretary of State for Wales, that did not usually require legislation, it was just a decision by the Government that a particular Secretary of State, and not another Secretary of State, would answer for a particular matter in the Cabinet.

Q46 Chair: It would be possible to hand the Severn bridge, or both of them, or certainly the second one anyway, over to the Secretary of State for Wales? Yet it would be much harder for her to hand that over to the Welsh Assembly, because that would require another Act of Parliament, wouldn't it? Or at the very least an LCO?

Chris Yewlett: That would be my immediate impression, yes. One would be within Government transfer, and the other would probably involve conveyancing of some kind.

Q47 Chair: Just out of interest, what would the Institute of Logistics and the FSB realistically like to see over the next five years as we come to the end of the concession?

Nia Davies: There is more of an impact on the Welsh side, and Geraint Davies has said that there is no revenue coming into, for example, the Welsh Assembly, who will be spending the money on infrastructure in Wales. So the point has been discussed, and I think that it is something that should be looked at, especially from the findings of the report.

For us, we have to look at the opportunity costs, and what will be best for business. If it is left as it is, business is going to lose out in the future. If the tolls could be spent on actually creating better infrastructure, that is something that we should be looking at.

Chris Yewlett: Obviously, there is the continuing maintenance of the bridge, but I imagine that is going to be a small fraction of the current toll compared with the original construction. Beyond that, you have to get into a very difficult area: is this an ad hoc form of taxation that happens to exist so we go on using it, or

should we wind the tolls down? I think the original concept, when the first bridge was built, was that the tolls would be discontinued after the bridge had been paid for.

Dr Andrew Potter: The other thing that we would like to see is a bit more flexibility in the tolls, with perhaps more dispensation for either local residents or local businesses—as, for instance, you get at the Dartford crossing—or maybe have different tolls for different times of the day. A lot of freight moves at night when roads are quieter. If you are going to use the toll as a congestion management tool, maybe making it free for a period of time during the night might be a way of managing some of those flows.

Q48 Chair: Once the concession is up, there will be a further five years when the toll will be in place, and the money collected should be hypothecated towards maintenance of the bridge. After that, it is up to the Government to decide what they want to do. That is a correct summary of the situation, isn't it?

Dr Andrew Potter: Yes.

Professor Peter Midmore: The anomaly is not that the toll exists. If you are going to ask people to pay to control congestion or to support the development of infrastructure, the fact that everywhere else is free is the anomaly.

Chris Yewlett: I just want to follow up, on that note, on one point that was made earlier about tolling in one direction only. Obviously, collecting tolls in only one direction saves you half the costs of having two toll piers, and it also means that you get a delay in one direction only, but it does actually bias travel a bit. Between south Wales and the west country, the construction of the new bridge, because of the associated road direct from the new bridge to the M5 bridge over the Avon, actually saves about 10 miles to and from the west country, which is a significant improvement not only because of the bridge, but because of the associated roads.

If you are going to a point somewhere along the M4 corridor to the north, and if you have to make several calls, there is a distinct incentive to go round in the anticlockwise direction and avoid paying the toll. I understand that Gloucestershire county council reports an imbalance of traffic on A48.

Q49 Chair: I have heard that. I can see that happening with cars, but I would be surprised if that was happening with HGVs, even at the high cost that they pay, because—correct me if I am wrong—they only do about 8 miles per gallon, so it wouldn't be worth taking a very large detour, even to save £15, would it?

Professor Peter Midmore: That is a 50 mile detour, or 53 actually, so you can do the math and see.

Chris Yewlett: With goods vehicles, it is not the long-haul vehicles, but more the intermediate, multiple-drop vehicles that could probably go round one way rather than the other.

Chair: I am going to bring in Guto Bebb. I should say that one of the reasons why the numbers are slightly low today is because there was a delegated legislation Committee taking place at the same time, so that has affected our numbers a bit. If Nia Griffith

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wants to come in on any question at any time, she is very welcome to catch my eye.

Q50 Guto Bebb: Just a quick question for Dr Potter. You mentioned the need for flexibility in the tolling, or a desirability for flexibility in the tolling, between now and the end of the franchise. My understanding is that we are looking at 2017 before the current tolling procedures come to an end. Do you think therefore that we should be looking at talking to the Secretary of State for Transport about changing the legislation that created the bridge, in order to allow that flexibility?

Dr Andrew Potter: You have to decide whether this is a short-term or a long-term issue, and what the objectives are, and then decide how to do it. It might be worth talking to the Secretary of State, but as we are only four or five years away—seven years away—it is more about planning for the future once the concession comes to the end, and having the system designed and the flexibility there so that when the concession ends you can bring in a different system. It is a trade-off between how much effort is required to get the system changed and the benefits that you get.

Q51 Guto Bebb: The reason why I was asking was that we are now looking at seven years rather than possibly four as originally envisaged.

Dr Andrew Potter: The fact that there is a slightly longer pay-off may be worth looking at, but if you then bring in the flexibility that reduces the income, you might push the end date of the concession even further away. It might be a case of biting the bullet and sticking with what we have got for the time being, then bringing in a slightly different toll mechanism when the concession ends.

Q52 Chair: On that point, has any of you done any estimates of what percentage of the tolls being taken at the moment is currently being spent on maintenance, or what would need to be spent on maintenance?

Professor Peter Midmore: I saw somewhere, when I was doing the background research before the survey, that the maintenance cost is about 10% of the overall revenue from the toll.

Q53 Chair: Theoretically, after the concession period has ended and the five years that the money is hypothecated towards maintenance, at today's prices the toll could be set at about 55p for drivers or £1.65 for HGVs, which would cover all the maintenance costs.

Professor Peter Midmore: I think there is quite a large element of the collection cost of the toll as well, so it would not be that low.

Chair: Right. But probably not that much higher.

Professor Peter Midmore: No. It would be about that. It could be possible to reduce the toll substantially if it were just to cover maintenance.

Dr Andrew Potter: The Dartford crossing is £3 if you go both ways across it, so assuming they have a similar cost base to the Severn bridge that might be—

Chair: I do not know whether they would have. Having a large piece of infrastructure in a saltwater estuary is probably very expensive to maintain—I think that we would all accept that—probably more so than a tunnel.

Q54 Geraint Davies: We are facing massive public sector constraints and reductions in spending and there is a need to stimulate the Welsh private sector economy. Given that, if we are moving towards a position where the capital costs will be paid off and we will just cover the repair costs, would the panel agree with a strategy of extending that period slightly in order to bring down the toll earlier and have a more even, lower toll over time rather than going from a high toll to a low one? That is alongside, perhaps, the other suggestions from Dr Potter that we have concessions in the middle of the night, with a view to using these tolls in a creative way to stimulate the south Wales economy, which is over-dependent on the public sector.

Nia Davies: If you still have a toll, even at a lower rate, it will still act as a barrier to trade. In 2017, you could have that income to spend on other infrastructure projects. So you are reducing the toll to a level where it is still there, but you have nothing for reinvestment. That could be the worst possible scenario in some cases. To lower it now and extend the ownership may not be the way forward.

Q55 Geraint Davies: I sympathise with the idea that we should reinvest the surplus in infrastructure, but there is no commitment to do that, is there? If there is no commitment to do it, other things being equal presumably it is better to get the toll down sooner rather than later.

Chris Yewlett: I think that the problem is not actually congestion on the bridge, although there are problems of congestion elsewhere in south Wales, so actually trying to displace the traffic—certainly the HGV traffic—to the night probably is not that significant. The question is whether the toll is a significant expenditure for the HGV operator. Obviously if they don't pay it at all that is a saving and so it is clearly a benefit. Whether it would be worth their while operating at night with additional costs rather than during the day, if that was when their run would normally take them over the bridge, will not, I suspect, be the deciding factor for fairly long haul, by which I mean Swansea or points west to the south-east of England. It probably will not be enough to tip things to travel at night. I am not sure that there would be sufficient benefit in having those vehicles travel at night rather than during the day. Some do travel at night for obvious reasons. Post office haulage, for example, tends to be overnight, but I do not think that it will bring sufficient benefit for giving up the income in that case. Daytime use by commuters is different. Bristol, for example, has the highest proportion of car commuters of any city of its size in England. Obviously quite a lot of commuters to Bristol come from south Wales so there are issues about what would happen if the toll were removed there.

Professor Peter Midmore: I think to refine the answer to your question, in general terms the things that

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determine where a business will be are the availability of resources, the strength of demand that can be serviced by that business and the transport costs involved in doing so. If you want to offset the effects of peripherality of high transport costs then clearly removing the toll would be one way in which you could do it. Another way that you could do it would be to enhance the infrastructure. If I am not careful I'll argue myself into a position for universal road charging to control congestion.

Chair: We would not want you to do that.

Professor Peter Midmore: There are huge political and other obstacles to implementing such a system so I think the next best alternative is probably a completely free transport network. But we are left with historical anomalies which it is the job of you lot to sort out.

Chair: On that happy note, perhaps I can close this session. Thank you all very much indeed for that. I believe that the next witnesses are ready. We will obviously take great account of the evidence that you have given us today. Thank you very much indeed.

Examination of Witnesses

Witnesses: **Ian Gallagher**, Policy Manager, Freight Transport Association, **Michael Webb**, Public Affairs Manager, Freight Transport Association, **Denise Lovering**, Director, Glenside Commercial, and **Robin Smith**, Rail Freight Group, gave evidence.

Chair: Good morning. May I introduce myself? I am David Davies, Chairman of the Welsh Affairs Committee and for the record could you introduce yourselves please.

Ian Gallagher: I am Ian Gallagher. I am policy manager for Wales for the Freight Transport Association.

Michael Webb: I am Michael Webb. I am the public affairs manager for the Freight Transport Association covering England, Scotland, Northern Ireland and, of course, Wales.

Denise Lovering: I am Denise Lovering. I am the commercial director of Glenside Commercial and also vice-chairman of the Wales Freight Council.

Robin Smith: I am Robin Smith, Welsh representative for the Rail Freight Group.

Q56 Chair: Thank you very much. Just for the record and as a general declaration of interest, I have had dealings with all of these organisations in the past in a business and political capacity.

May I start by asking the witnesses to what extent they think that road charges are influencing the impact on business on Wales? Perhaps we could start with Denise Lovering. I know that you have quite strong view about this, so can you tell us what they are?

Denise Lovering: My company's head office is based in Caerphilly, but we have workshops in Avonmouth, Portsmouth and Croydon, which means that I go along the M4 quite often to visit those places. We employ 30 mobile engineers who, by the very nature of their work, work all over the south of the country and they have to come back to Caerphilly quite often for parts, paperwork and all sorts of things. They are in the middle class of toll, so we pay £10.90 each time they come back home, as I call it. We cannot pass on this charge. We accept it because it is part of what we do. We didn't have to have mobile engineers, but it is part of the business that we have.

A colleague in Jessica's constituency pays £200,000 a year in tolls, which is a charge that he cannot add to any of the work that he does.

Q57 Chair: May I ask who that is?

Denise Lovering: It is Owens Road Services. Because of the very nature of the work, most people know the

price that they are going to pay when they have goods moved, so it is very difficult in the competitive world in which transport and haulage companies work to add the £16.40 into a bottom line and hope that no one is going to pick it up. So it is a cost that they have to absorb.

Q58 Chair: If I could just ask the other two witnesses about the effect that they think this is having on businesses, I will then bring in Nia Griffith on inward investment.

Michael Webb: One of the key issues is that it restricts the ability of Welsh companies to operate cross-border. The haulage market in the economic downturn is extremely fraught and every penny really does make a difference. If you are a company looking to buy some logistics work based around the English side of the bridge, ultimately, if it will be £16.40 cheaper to use an English company rather than a Welsh one, you will use the English company.

Robin Smith: From the perspective of the Rail Freight Group, we have no locus in terms of to what extent road charges influence business in Wales. All we would reflect on is the fact that they have been part of the south Wales transport scene and the south-west transport scene since the first bridge was opened in 1966. Before that, we had the Severn ferries or you trotted around via Gloucester. From the rail freight perspective, the situation is as it has been for 45 years.

Q59 Nia Griffith: You mentioned, Denise, that you are based in Caerphilly. We have already seen Owens from my constituency set up a big depot in the Newport constituency, because it has cut down on mileage. Have you ever been tempted to go over the border to set up your business because the costs would not be anything like as great?

Denise Lovering: Yes.

Q60 Nia Griffith: Presumably, a lot of your customers are in England, with comparatively less in Wales, because of the population differences. Is there a real danger that the charges could force some businesses to re-locate to Wales as a disadvantage?

Denise Lovering: I think that is the case. We have considered it, but we started in Caerphilly and we are

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staying where we are for the moment. I know that one large company has relocated over the bridge, and one big factor was the cost of its tolls. It has caused a huge problem for the work force, because if they continue to work for the company, they now have to pick up the tolls, as opposed to the company paying for the movement of their transport. I think that it definitely has that impact.

Ian Gallagher: That is absolutely right. Prior to coming here today, I made a general request for information from south-west and Welsh members to gain their opinion on exactly that question. It was interesting that two companies came back and they are based around the Avonmouth area specifically for that reason. If they went to south Wales they would be paying the tolls, so it does have a bearing on location. A greater study would need to be carried out to fully appreciate that impact. That is why we support the Welsh Assembly Government's decision for a study.

Q61 Jessica Morden: On that point, are you able to confirm who those companies are?

Ian Gallagher: Yes, I can. Culina Transport and Snows Commercials.

Q62 Jessica Morden: A question to the RFG. Is there any evidence to say that the Severn crossings have encouraged more companies to use rail to transport their goods?

Robin Smith: No, there is not, because of the current restrictions on the rail network imposed by the Severn tunnel or on all the alternative routes. There is reasonably good access to the midlands and the north, but into England and the London and Southampton areas, for example, the constraints of the existing Severn tunnel count against the development of rail freight.

Q63 Chair: In which case, if I may just ask a quick question, why are rail freight groups so in favour of road tolls if, by your own admission, there would be no extra business for the railways, even if they were cut to zero?

Robin Smith: What we are saying, as we put in our paper, is that the rail network is currently constrained by the Severn tunnel. In the event that tolls are required at the ending of the Act and so on in 2017, we are suggesting that, rather than reduce the tolls, they should be retained at a reasonable level—I am not going to define that—and the money hypothecated towards a second rail crossing which would benefit both passengers and freight to and from south Wales. That would, in fact, lead to less congestion and less wear and tear on the existing bridges.

Q64 Chair: But isn't it actually the case that it is not the volume of trains going through the Severn tunnel that is a problem, it is the fact that you have a limited number of up and down lines right the way from south Wales to London? So even if you build a second Severn tunnel, you would still not be able to get that much more freight on to the railways, unless you built a line right the way through from London to south Wales.

Robin Smith: Obviously, that would be taking it to a totally different field, to whether there should be a high-speed line to South Wales. But there is capacity as shown through the Network Rail document on the Great Western Route Utilisation Strategy. There is capacity on the South Wales main line and on other lines feeding into the Severn tunnel. The constraint is the loading gauge—the size of the freight wagons that you can put through the Severn tunnel at the moment. That is one of the constraints. The other constraint is that because of the signalling arrangements in the Severn tunnel, the trains have to be spaced further apart than they are in some other parts of the network. That two-track section only between Patchway and Severn tunnel junction is the constraint.

Q65 Chair: If I may just pursue this for a minute—I do not want to abuse my position in the Chair. Isn't it the case that changes to the law would surely have had a much bigger impact on rail freight than the level of tolls? For example, the maximum weight that could be shifted on road used to be 44 tonnes, if part of the journey was by rail. Now it is 44 tonnes, absolutely. Aren't you going after the wrong enemy here?

Robin Smith: I am not going after an enemy here. What I am trying to do is find a friend to help us invest in what is needed going forward. The existing Severn tunnel, while perfectly sound, is 125 years old. There is a need, as has been recognised both by this Committee and by the Committees of the National Assembly for Wales, for a second Severn rail crossing at some stage.

Q66 Chair: You're lobbying for that. I understand that. But I am just suggesting that there might be things that the rail freight group could do that would get more freight on to the railway, other than campaigning for a maintenance of what many people perceive to be quite high tolls.

Robin Smith: I would like to think that we are campaigning on behalf of lots of traffic to switch from road to rail. In fact, since privatisation, volumes in tonne—kilometres by rail have gone up by 60%. Within the inter-modal market, both domestic and the deep-sea import, and some export traffic, has gone up by 47% in 10 years. We don't claim full credit for that, but the industry that we represent is doing its bit. One of the areas that hasn't seen significant growth is south Wales, because of the constraints of the Severn tunnel and the loading gauge constraints, and so on.

Q67 Geraint Davies: On that point—about the increase in inter—modal traffic by rail—do you agree that the burden of cost for an extra tunnel should be borne by the railways themselves through a toll over time? Why should the people using the bridge pay for your railway tunnel?

Robin Smith: I can recognise that that is a counter argument. I would still argue that looking at the scene as a whole—at the benefits of encouraging modal shift and so on—that that is one way of driving an increase in rail freight.

Q68 Geraint Davies: Coming back to the bridge itself, I want to ask the panel if they agree with this

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point. If a business has a choice where to locate itself—looking at the fact that the English market is much larger than the Welsh market, and if that business does not have family links in Caerphilly or wherever—it would, rationally, choose England, given the toll. Therefore, the toll is an unfair tax choking the south Wales economy. Do people agree?

Ian Gallagher: I would agree, absolutely. From a rational point of view, a business decision is based on where the market is and factors that may affect the market—like tolls—need to be taken into consideration. Therefore, you would be more than likely, today, to make the decision to base your business on the English side.

Michael Webb: However, off the back of that, a significant number of companies have built up vital roles in communities within south Wales. As a consequence, it would be a brutal chief executive who looked at it and said, “We made a mistake first time around. We should just up sticks and move to south-west England”—thus moving all the jobs to south-west England. I imagine that most of our members would be loth to do that, unless there were the direst economic need.

May I, briefly, come back to the point about hypothecation? The idea of hypothecating the toll revenues from the bridge into paying for another tunnel or, indeed, any individual transport project certainly makes me slightly nervous. Over a lengthy period of time, transport tends to pay more than it receives. To my knowledge, there is no specific plan to hypothecate revenues for reinvestment into transport—be it road, rail, or whatever. There would be a governmental temptation to look at it and think, “Here’s a big packet of money. We’re going to go and spend that on something that makes us look better in the public eye.”

Q69 Geraint Davies: And, in fact, while there is clearly a case to be made for the hypothecation of a green tax from transport towards something else, like a hospital, there isn’t a case to discriminate specifically against one element, which happens to be this artery into the Welsh economy—as opposed to having a general tax on vehicles or whatever it happens to be. Do you agree that this toll is targeted indiscriminately against the interests of the Welsh economy, and it really should be got rid of?

Michael Webb: What we have been arguing for is specifically a reduction, rather than elimination. That is simply because the bridge itself—both bridges—are going to have to be maintained, going forward. It would be a difficult sell to expect that to come out of general tax take. There are quite a lot of different bridges around the country. Any reduction to a maintenance-only charge rather than abolition would be what we would expect.

Q70 Geraint Davies: Finally, Denise Lovering mentioned that in her case and that of Owens Road Services, Welsh companies that are taking an unfair, uncompetitive hit have to absorb that in wages or lower rents or whatever, in order to have a competitive price in the marketplace. Does it not follow, therefore, that if we were to eliminate the toll, there would be

breathing space there for Welsh companies actually to thrive? They are already operating with one arm behind their back, and they could use that opportunity to get a greater market share in England and elsewhere.

Denise Lovering: I agree with you, bearing in mind that SRC takes £77.6 million in tolls. Last year they managed to make a £4 million profit, having also spent some money on essential maintenance, coupled with the £10 million or so that central Government are spending on the corrosion on the first bridge. I agree with Mike that in a perfect world there would be no tolls at all, but I think we all accept that the users will have to pay for this little stretch of road that goes across the water. There will, therefore, be some charge involved for maintenance, and also to pay the people who will operate the toll plaza. My biggest fear, in 2017 or whenever the bridges revert to public ownership, is that it is not seen as a cash cow. “We have taken £77 million—yippee. Let’s take some more, and we can put it wherever we want to.”

I think that as the years have gone on, we have paid enough money to cross the water and it is about time that we got some back. You are quite right; it would ease the burden on Welsh businesses. If you are in transport, whether you are a haulier or you have to operate vehicles, you get a double whammy. If you go out of Wales and come back you pay the bridge toll, and you also have this increase in fuel tax. That is not going down; it is going up. We also pay our road fund tax, and I am not sure what we get for that. There is a big burden on transport companies, and I think the toll would be a great incentive to put some money back into Wales if it were reduced to a much fairer level.

Q71 Chair: Thank you very much, and I know how strongly you feel about that.

Mr Smith, does the Rail Freight Group accept that if there were a boom in the economy in south Wales, or an expansion of companies coming here, it would be bound to be good for rail freight? A lot of freight will be shifted from south Wales up to the midlands, not via the Severn tunnel. You would have an interest in seeing businesses coming into Wales, would you not?

Robin Smith: Absolutely; we would fully support the development of south Wales. I am a south Wales man—a Monmouthshire man, like yourself.

Q72 Chair: So, if we can show that a reduction in tolls over the next five years—as the concession period and the subsequent five-year period come to an end—would be good economically for business, such a reduction in tolls is something that the Rail Freight Group might actually support.

Robin Smith: We would welcome any changes and investments that stimulate the south Wales economy, which has suffered rather badly over my lifetime.

Q73 Chair: You could actually gain from that. I hate to press you on this, but I have had some experience of moving rail freight. That was 10 years ago and in the Felixstowe area with ships coming in to Felixstowe, so it is not necessarily fair to ask you this, but it was my experience that small companies were

quite discriminated against. Even when they were moving the same amount of freight by rail overall as shipping companies such as Maersk and P&O, they were given a different pricing structure. That meant that it was cheaper for me to move freight by road rather than rail, even though I wanted to move it by rail, and even though the rail freight company—Freightliner, I think it was—was offering better rates to companies that were shipping less freight. They were strange pricing structures.

Robin Smith: I would hold up the rail freight industry as a good example of where privatisation and competition have worked. The situation that you have just mentioned may well have prevailed from the old days of 20 or 30 years ago and been a carry-over.

Chair: No; I am not that old.

Robin Smith: I said it was a carry-over from those days, but I would argue that within the past 10 years there has been a significant change in the environment.

Chair: Excellent; we will happily agree on the privatisation point.

Q74 Nia Griffith: One of the things that struck me about the whole scenario is how little there is in the way of a bargain to be had. There is this season ticket system that might be okay if you are a full-time worker who takes all their annual leave in one block, but it is incredibly difficult to see any sort of concession. When things change, would you be looking to try to get some sort of agreement? What sort of talks have you had in the past about a season ticket approach for high users? It seems to me that you produce an enormous amount of revenue for the system and yet there is no recognition of that in the pricing structures.

Ian Gallagher: You're absolutely right. The payment mechanism in place at the moment is either cash or, during the Ryder cup, a hand-held device and a credit card. There are two systems in place—season and day-trip TAGs. Those are the methods of payment that haulage operators tend to use rather than cash. At the end of the day, they do not give you any concession. It is more or less a full-rate charge, irrespective of the crossings you make.

Moving forward, we would like to see greater flexibility and the technology being used to speed up the transit through the tolls. We would like to see a reduction in rate for night time. If you could build it in, we would like to see some incentive maybe for greener vehicles, so that they benefit from a cheaper toll. There are so many things that you could build into a toll, but realistically we have to wait. It's going to be a hard job to get the present concession to change the regime. Realistically this is a discussion for when the bridge comes back into public ownership. We need a template for UK infrastructure tolling, not just for the Severn bridge. It needs to be something that can be recognised as best practice moving forward for all tolling schemes.

Q75 Nia Griffith: It's not just the mechanism. Technology should be able to sort that out, as you say. Everything else can record every single detail about every transaction that you make. It is the issue of

whether you should be negotiating and have you negotiated any form of bulk purchase discount? How would you see that operating? In particular, I am thinking of some of your business. Has it ever been discussed and would you like to see it discussed?

Denise Lovering: It has been thought of many times, as I'm sure you would agree. Within the present remit of the Act as it is written there is no room for anything like that.

Q76 Nia Griffith: So, looking to the future?

Denise Lovering: Looking to the future, I hope that it would be possible. When you look into the Act, it is a very strange document because the Secretary of State has certain powers in there. He is allowed to suspend tolling on one or more classes for a certain length of time.

The whole way of calculating the toll—and I guess we are due to have another increase in January—is based on the RPI in September this year, as against March 1989. Then we add the increase. To me it seems a very antiquated way of doing it. I know you have to have a yardstick, but people don't understand why. All they see is that, come 1 January, the toll will go up again, however much it will be. It is probably not for now, but I wonder if anyone has ever approached the concessionaire and said, "We know what we said. We accept that you have to make your money and get your money back, but we have to look at these regulations and perhaps alter them a little bit and put some structure into them because there is no structure there."

Q77 Jessica Morden: Could you give an indication of how tolls vary across the country—for instance on the Dartford crossing and the Humber bridge—where there are businesses that can span the country?

Ian Gallagher: Obviously we are fully aware of the cost of the Severn crossing. Of the major crossings, we could start in Scotland. Although I believe they are feeling the pinch a little at the moment and may have to review the policy, all the major crossings in Scotland are currently free of charge.

If we look at other crossings such as Dartford, there are concessions built in. For example, local residents can benefit by obtaining a reduced TAG and then pay something like 20p after about 50 free trips. The toll itself is only £2 or £1.75 with a TAG. So there is a concession when you get a TAG. Overnight it is free of charge.

If we look at the Humber bridge, it is owned by four local authorities and has more structure to it, in so much as different vehicles pay different rates, based on the size and the number of axles. That varies from the Severn bridge because you have small vans such as car-derived vans crossing it. I spoke to Convoi Exceptionnel last week about their car-derived vans taking abnormal loads across the bridge. The car-derived van with just one person in it, which is just a car chassis, pays £10.90 to go across because it is classed as a goods vehicle up to 3.5 tonnes. I could go through the rest of them if you like, but it is in the submission. There is quite a variety in the way that tolls have been put together right across the country, whereas the Severn tolls are very sweet and short. You

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are either a car or a goods vehicle up to 3.5 tonnes, or you are above that and you pay £16.40. There is a massive difference.

Q78 Jessica Morden: So are the Severn tolls the most expensive?

Michael Webb: For all bar the largest vehicles, which are more expensive only on the Humber. For an individual trip they are a bit more expensive. It is £18.30. When you bear in mind that there is also a multi-trip TAG available, which offers a regular user's discount, that brings the cost down, roughly in line with the Severn. It is a couple of pence either way.

Ian Gallagher: The important factor there is that it is just for the 44 tonnes. That is all. The Severn bridge makes such charges for anything above 3.5 tonnes.

Q79 Jessica Morden: Do you feel therefore that the Government have treated the Severn bridge very differently from the Humber and Dartford crossings?

Ian Gallagher: Massively. Denise was absolutely right when she said that the Act is absolute. It has been written by a genius. It is so watertight in favour of Severn River Crossing plc, it is unbelievable.

Q80 Jessica Morden: Given the current economic climate, do you think there is an argument this year for saying, "Freeze the tolls"?

Denise Lovering, Michael Webb, Ian Gallagher: Yes. Absolutely.

Denise Lovering: That would send out a great message.

Chair: Mr Smith?

Robin Smith: I won't comment.

Q81 Guto Bebb: Am I right in saying that the freeze would require a change to the Act?

Michael Webb: Yes.

Q82 Guto Bebb: In terms of the difference between other toll roads, which you have just been discussing with Jessica Morden, is the fact that the bridge was built under this specific Act the issue? Do you think that a co-ownership with the Welsh Assembly might also create more flexibility in future?

Michael Webb: The reason why the bridge is so clunkily managed and why it is so difficult to effect a change, albeit that the credit cards issue shows that it can be done, is simply down to the way that everything is enshrined in law. Our dealings with the previous Government, and to some extent with this one, have suggested that for a number of reasons they are loath ever to tinker with the Act, although they made an exception for the credit card payments. Other bridges are managed in a more flexible fashion.

Q83 Guto Bebb: Is that because the ownership of the bridge has been with local authorities rather than central Government?

Michael Webb: Potentially, yes. When we met and had a conversation about this with David Jones, the Minister at the Wales Office, he was perfectly open

and honest with us saying that basically anything that extends the life of the concession period, so still retains the debt of the Severn river crossing on the Government's debt sheet, is unlikely to be looked on too favourably in terms of tinkering with it. They want the Severn river crossing people paid off and paid off as soon as they can, which is understandable in the current climate, and which perhaps makes us more sceptical about whether we will be able to engineer a freeze in the tolls no matter what the economic need for it.

Q84 Guto Bebb: You mentioned the fact that you were fundamentally opposed to hypothecation.

Michael Webb: No. We are by no means opposed to doing it. We just struggle to believe that it would happen in practice.

Q85 Guto Bebb: In terms of tolls in general, and in terms of the fact that the M4 and the Severn crossing are part of a major European route and that tolls are levied in many parts of Europe, do you have a fundamental opposition to having tolls on the road? Or is it this specific one that is causing some concern for you?

Michael Webb: It's not the principle of tolling that causes us concern; it is the level of it. Other members in other areas of the country are fortunate enough to live in an area where there is no road tolling, and therefore pay nothing unless they choose to do some work in south Wales or up by the Humber. However, people who work in other areas of the country either pay a lower toll or, as in the case of the Humber, can at least rest assured that the Government have demonstrated that they are listening to businesses' concerns, which is not the feeling that we have always had in relation to the Severn.

Q86 Chair: Just quickly, across the panel, could I ask whether any of you see any benefits to the Welsh Assembly's having a greater role in determining the future of the bridge? Obviously, I mean the second bridge, because I was reminded earlier that the first one is entirely in England. Mr Smith, do you have any thoughts on the Welsh Assembly having a say or perhaps even control of the second Severn crossing?

Robin Smith: I think that is part of a much larger question as to where the line on devolution is drawn.

Denise Lovering: It needs to be looked at very carefully once the bridges revert back to public ownership. There could perhaps be some sort of co-working between central Government and the Welsh Assembly Government to operate it. I am not really sure how that would work, and I don't even know if it would cause more problems.

Chair: I get the feeling that there is no strong feeling here that things would be better.

Michael Webb: For my part, I tend to agree with Mr Smith about it being part of a wider devolution question.

Chair: I sense no strong feelings there.

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Q87 Geraint Davies: Would you agree that who makes the decision, whether the Welsh Assembly or the British Government, is completely irrelevant, and the issue is whether there is a toll, and what that toll is? Would you agree that the toll is inherently anti-competitive? People who are running businesses in Wales or England want to cross the border and compete. It is just a cost of competition. It is economically wrong. I don't need a long-winded reply. In essence, do you agree with that?

Robin Smith: I think there has been a principle that, for certain crossings, the user pays, and certainly within the rail network, to a large extent, the user pays. It is not the principle that is the concern; it is maybe the level. I would accept that. I would argue that the level should be set slightly higher than perhaps others would set it, and the additional money hypothecated towards a second rail crossing, but I certainly agree that the principle of tolling has some strength to it, but the level is a matter for debate.

Q88 Geraint Davies: Hold on. Wouldn't you accept that if you have road tolling on the whole motorway infrastructure that would be fine? But isn't this a simple toll, a charge, a penalty and a tax on the main motorway artery into Wales? The bridge is the economic bridge, and we are tolling that. Why don't we toll the entire motorway network? That has to be paid for.

Robin Smith: Historically, the major crossings, as with those in Scotland, have always borne the burden of a toll.

Q89 Geraint Davies: I know what has happened—I'm just saying that it's wrong. Wouldn't you agree that in terms of south Wales, and I represent Swansea, inward investment is determined by the access to markets in terms of time and cost? It is a long way to Swansea, and you have got to add on the toll. Wouldn't people accept that that toll is just an unfair constraint on the development of the south Wales economy?

Robin Smith: I think there is an argument to be made that way. I would argue in return that the principle of charging for crossing specific physical barriers is well enshrined and well understood. There is an argument about the level, but I would argue that what applies to the Severn bridge is no different from what applies to the Mersey.

Q90 Geraint Davies: What do the other panellists think? My view is that a bridge is no different from building a road. The position is completely anomalous and unfair.

Michael Webb: The first thing to note is whether we would ever have had the second crossing without the toll. The argument is that the toll is paying off a debt to a company that provided a bit of infrastructure. Whether or not that remains in place after it is paid off—which is currently believed to be 2017, although the date seems to be creeping further and further into the future—is another question.

The other question for our industry, looking not just at the M4 or Wales, is how this will interact with intended Government policy to introduce a lorry road

user charge. To be honest, all we know at this point is that that is in the mind of the DFT team at the moment. We don't yet know on what roads or at what level that would physically work, or how it would interplay with existing road tolling such as the Severn crossing. There are a few unknowns for our industry at the moment.

Q91 Geraint Davies: Do you think there's a case to be made for extending the period in which the capital repayment is paid off in exchange for lowering the tolls now? I presume that you think that, at the end of whatever the duration is, the toll should go down to the minimum cost, which is repair plus maintaining the booths.

Michael Webb: Yes. That is certainly what we would envisage post-2017.

Q92 Chair: Post-2017 is going to be difficult, isn't it? There's a five-year period when mid-tolls have to be collected at full rate and then hypothecated into maintenance.

Michael Webb: That is a consolidation fund.

Ian Gallagher: The question, though, is whether, certainly after 2017, they should be maintained at that present level.

Q93 Chair: Could they be set at a lower level after 2017? My understanding was that they would have to remain at about the same level and the money would be used to maintain the bridge.

Ian Gallagher: My understanding is absolutely that, but also that the maintenance fund after 2017 would cover the costs, for example, of the work being carried out by the DFT on the first bridge now. So the costs being levied are sort of mounting up and will be taken from that maintenance fund after 2017. It is not there just to maintain after 2017, but it is also there to pay for existing repairs.

Chair: There are a few people who want to ask questions about credit cards.

Q94 Jessica Morden: What do you think about the controversial debit and credit card issue and the fact that the facility to pay in that way has been withdrawn since the Ryder cup?

Denise Lovering: Legislation was passed to allow that to happen. I am not sure—you are probably in a better position than me to know why it was withdrawn. In our company, if we take a credit card payment from a customer, the credit card company charges us about 1.85% of the transaction, which we pay them to allow us to take the money via credit card. My understanding from the people I spoke to was that the big hoo-hah about allowing credit cards to be used on the bridge was that no one would say, "We will accept the charge from the bank and we will pay for it." SRC said that it wouldn't do it, and I understand that the Highways Agency said that it wouldn't do it. So to appease the people coming to the Ryder cup, they had the hand-held things, which slowed people down more than stopping for cash, because they had to put in their PIN.

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Q95 Chair: May I just interject? Do these hand-held card readers have a lower commission charge?

Denise Lovering: No, it is exactly the same.

Jessica Morden: It is just temporary.

Denise Lovering: I have a friend who came back from holiday and commented to me that they had purposely tried to drive from the south of France back home to Wales without using cash, and they managed it until they got to the bridge. They drove all the way from the south of France using credit cards for petrol and the tolls in France, but they got to the Severn bridge and had to scabble around to find some cash. Quite honestly, in this day and age, with the technology that we have available, that is absolutely ludicrous.

They have stopped asking motorcyclists to pay the toll, because it takes it too long for them to take their helmet and gloves off and root around to find cash. Obviously, they are aware that they are slowing traffic down, so there should be a quicker way of collecting tolls. Why can't we have a swipe or vehicle recognition? There are all sorts of things that we could have, but it seems that, until the payment situation is sorted out, we are not going to have anything other than what we have now.

Michael Webb: The inability to pay by credit card reflects very poorly to overseas visitors coming to Wales. So much effort goes into trying to attract visitors to Wales, yet when they turn up they are sometimes turned around and made to go back across the bridge to find a cash machine, which is ridiculous. That just doesn't happen in other countries.

Recently I was quite proud of the fact that—if you're Northern and you go on holiday, you guess how much foreign currency you're going to need—I managed to get exactly the right number of euros. I then discovered that I had to pay €1.90 for a road toll in Spain, but I was still able to card it. I cannot imagine that Spanish banks are inherently nicer than British banks, but they were fine and were happy to accept the payment with a relatively small commission. The total cost was still much lower than I pay on the Severn. It is ridiculous that card payments aren't allowed on the Severn crossing.

Chair: We've all been caught on that.

Q96 Guto Bebb: You've sat here and asked a question about credit card payments, but I thought that you were representing the haulage industry. I was under the impression that most of the haulage industry uses the TAG system to pay their way across the bridge, so I thought that you would be fairly relaxed about the whole system.

Denise Lovering: Not all of them use the TAG system.

Q97 Guto Bebb: You spoke quite passionately about the issue. As a company do you use the TAG system?

Denise Lovering: We do use the TAGs, but quite often people who do not have a TAG need to cross the bridge. They don't all have a TAG, so we have to ensure that we have enough petty cash to give to them before they go over so that they can pay the toll when they come back.

Q98 Guto Bebb: A more important issue is not the credit cards, but the faster payment systems—throwing money into a box, and so forth. I suspect that if I worked for a haulage company, I would be more annoyed at having to wait in a queue, rather than people just having to throw money in a box and go on their way. Is that also an issue on the bridge?

Denise Lovering: I don't think so, but the TAG lanes can be very slow. When I came back from Croydon the other week, the outside lane, in which they don't take anything but TAGs, wasn't working and had all those nasty bollards across the front, so I had to join a queue that takes TAGs and cash. A person right at the front didn't have the right money, so we all had to back up while they took him off. That seems a bit antiquated to me in this day and age. Ensuring that employees who are on business have cash to go across, and obviously we give them money—if I happen to forget my TAG, or whatever, I have to ensure that I have cash—is another pain in the backside.

Q99 Guto Bebb: So basically the message is clear that businesses will also be grateful to be able to pay by credit card?

Denise Lovering: Definitely.

Ian Gallagher: Even in the haulage sector there are plenty of car drivers, many of whom end up paying cash at the toll booth.

Q100 Chair: Bearing in mind that, as we discussed earlier, there is a percentage cost to handling cash, would those businesses that want to pay by credit card accept paying 1% extra? Could that be done?

Denise Lovering: No. I wouldn't want to pay any more than we are paying now.

Q101 Chair: 15p extra?

Denise Lovering: No. We don't pass on that charge when we take customers' payments by credit card; we accept the charge. Originally, the Act was set up only for cash, so that SRC would never be owed money. Cash would be paid, so no one would get away without paying anything—cash would be paid, full stop. We take the view of business, which is that you take a risk if you allow someone to pay by cheque or on account, because, especially in this day and age, businesses are going out of business all the time. To have that comfort factor of taking credit card payment, we are happy to stand with 1.85%.

I do not want to drag this out, but there was an article in the paper—you may have seen it, in the *Western Mail*—in which the managing director of Severn River Crossing was lamenting the drop in traffic last year. He suggested that perhaps it was down to the recession, because the drop seemed to have been in heavy goods vehicles. I would say that perhaps it was not necessarily that. I accept that that has had an impact, but so has the increase in the tolls. People are just sick and fed up with paying them.

Q102 Chair: I get the strong impression that you are against them. Some of us who have the misfortune of travelling on budget airlines have been hit by a £5 charge by a certain Irish airline that will remain

nameless. That is significantly more than 1%, but we all have to pay it, because what else can you do? Do you not think that some hauliers or some of your businesses might be willing to pay an extra 1% on a £5.50 charge?

Michael Webb: Ian, you may know better than I do, but I will hold my hands up and say that I have not really discussed it with our membership. We would, however, be happy to have a conversation about that with our membership and feed it back to the Committee.

Q103 Chair: We know that in an ideal world there would be no tolls, but we are looking to make recommendations that have some chance of being implemented so sometimes we will have to compromise.

Ian Gallagher: If I may add to that, we have discussed it, not officially or in a great group, but certainly when we have met our members it has come up. It has come up obviously because the question of credit card payment and who should pay this additional sum was being discussed at the time. Quite categorically, trying to put that past the membership as a whole, everybody we have spoken to about this has said, “No, why should we?”

Q104 Chair: Not even 5p extra?

Ian Gallagher: Not even 5p; why should they? Setting a precedent such as that is not good.

Q105 Geraint Davies: I think the absence of credit card facilities signals to people that Wales is somehow not open for business, and that it is backward. That is highlighted in “Gavin and Stacey” where it becomes a laughing stock so that you cannot come into Wales because you cannot use a credit card, and you have to turn around. The issue of who pays is separate, and everybody is as one—other than Robin Smith—that the tolls themselves are bad for business, that they should be lower rather than higher, and that we should have credit cards and a freeze on the tolls. I think that that is what I am hearing from the panel.

Denise Lovering: Yes.

Q106 Jessica Morden: Just a quick question, which you touched on earlier. Beyond credit card and debit card payments, what are the smarter methods of collecting tolls that you see elsewhere, which could come in on the bridge?

Denise Lovering: There is number plate recognition. This is all going on to GPS. I know we touched earlier on road charging and I think that the GPS system would be the route that we would go down. There are TAGs. Everyone could have a TAG—there is no cash, you just pay a tab on a pre-loaded account. For the credit card payments, you just drive through and swipe it. You don’t have to stop and put your credit card pin number in. I guess that that is tied up with number plate recognition as well. I wouldn’t know how to find you if your credit card doesn’t pay. I’m not sure how they would do that. But there are lots of things that would make it more beneficial for users. I think the driver is reducing the toll—making the toll much fairer and more appropriate. I am sure that back

in 1992 when the Act was done, no one in their wildest dreams envisioned charging £16.40 for a heavy goods vehicle to cross the bridge. At the time it was £1.75 or £2. It has just gone up and up, year on year.

Q107 Chair: May I finish by asking you all again to talk about what you would like to see happening, probably in about seven years’ time, when the concession and the five-year period have ended? We have skirted around that, but what do you think is realistic? Not what we all want to see, but what do we think is a realistic scenario in seven years when the Government have a blank piece of paper?¹

Ian Gallagher: If I may start, I think what needs to happen is that the toll should be reduced to a maintenance level. There should be flexibilities built in to the payment infrastructure. There should be smarter methods of making that payment. As far as UK plc is concerned, I would suggest that this debate is not just about the Severn bridge, it should be about tolling systems of this nature across the UK.

Q108 Chair: I am even going to help you out a bit further here. Both bridges are, say, an average of 2 miles long. Presumably, when you say maintenance you mean maintenance minus whatever the standard rate is of maintaining that stretch of motorway on the road network.

Ian Gallagher: Absolutely, as far as the overall upkeep—the housekeeping—

Q109 Chair: Yes. Every stretch of motorway has an upkeep and maintenance charge. So presumably, your solution is that that ought to be deducted from the—

Michael Webb: Yes. We are talking about the maintenance levels required as a result of it being a bridge, rather than a motorway.

Denise Lovering: I would say exactly the same. We would accept that there has to be a toll, but at a lower level, and that it is to maintain the superstructure and perhaps the people who have to take it, and it should have flexibility, so that it isn’t just one size fits all—so that there is, perhaps, out-of-hours running and multi-user running. Senior citizens and students—they still have to pay the same.

Q110 Chair: I’m grateful to you for that. I do not like these “what if” counter-factual scenarios, but had there been no bridge at all and we were still relying on the Usk crossing and, with all due respect, the trains, is it not fair to say that that would have been devastating for business and inward investment in South Wales?

All Witnesses: Yes.

¹ Response from Robin Smith would have been “What I and the Rail Freight Group would like to see in 2017 is completion, as previously announced, of the electrification of the South Wales Main Line through to Swansea along with appropriate loading gauge enhancement throughout, including through the Severn Tunnel. We would like to see this happening alongside, and as part of, a significant regeneration of the South Wales economy and the two combining to provide a springboard for further growth which, in turn, underpins the case for a second Severn rail crossing.”

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Chair: I would like to thank all of you very much today. It will form an important part of the report that indeed for your evidence and for coming along here we will release shortly.

Thursday 4 November 2010

Members present:

David T. C. Davies (Chair)

Guto Bebb
Geraint Davies
Jonathan Edwards

Nia Griffith
Jessica Morden
Owen Smith

Witnesses: **Jim Clune**, General Manager, and **James Rawle**, Deputy General Manager, Severn River Crossing plc, gave evidence.

Q111 Chair: Good morning, everyone. Thank you, Mr Clune, for coming in again today. Some of the questions that we ask you will be similar to the ones that we asked at the informal meeting that we had at the Severn bridge. We are asking them again because your answers will be recorded as part of the official record.

Even though we all know who you are, could you please introduce yourself and your colleague for the record?

Jim Clune: My name is Jim Clune and I am the general manager of Severn River Crossing plc. My colleague is James Rawle, who is the deputy general manager.

Q112 Chair: Thank you, and welcome. We have a number of questions to ask you over the next half hour, and I will ask the first question. Could you outline the terms of the concession? My understanding—and I will put it in very simple terms—is that you took on the debt of the existing bridge of £122 million. You built the new bridge, the cost of which came to about £330 million. The total is therefore about £450 million. You were told that, in return, you would be able to collect up to just under £1 billion in revenue, and, once that money had been collected, that would be the end of the agreement. In broad terms, is that the agreement?

Jim Clune: Yes, that is correct. I will just clarify that the cost of the second crossing, including VAT, was £390 million. The net cost, exclusive of VAT, was £330 million.

Q113 Chair: You got the VAT back, presumably.

James Rawle: No, we did not.

Q114 Chair: Oh, I see. So, your outlay for this was £510 million.

Jim Clune: Expressed in 1990 prices, yes.

Q115 Chair: For a return of £1 billion.

Jim Clune: Yes, and the approximately £1 billion tolling revenue is a sum that is expressed in 1989 prices.

Q116 Chair: I understand that, so the real-terms figure will be higher than that.

Jim Clune: Yes.

Q117 Chair: Okay. What, roughly, do you have to spend on maintenance each year?

Jim Clune: The best way that I can express that is to say that, in 2010 prices, we are spending

approximately £12 million a year on operating costs. That includes the costs of inspecting and maintaining both of the crossings, but also of collecting the tolls, so it is a total operating cost in 2010 prices.

Q118 Chair: What do you estimate that that would be in 1992 prices, that is, the prices that we are using to calculate the £1 billion?

Jim Clune: I would have to do a mathematical calculation to arrive at that figure.

Q119 Chair: It would be significantly less, would it not? It would be about half of that figure.

Jim Clune: It might be—I could not say for certain.

Q120 Geraint Davies: So, if we add all that up, it gives you a gross profit of around £0.5 billion, less the ongoing £12 million a year. How much profit, therefore, will you have made out of this venture?

Jim Clune: It is not just a question of the construction cost and the ongoing maintenance cost. There has been, and continues to be, a very considerable cost associated with the financing. At the beginning of the concession we took out a considerable amount of debt financing to finance the project, and those costs continue to accrue. So, it is not just the second crossing construction cost.

Q121 Geraint Davies: Right. Presumably, given that the Bank of England's independence has brought down long-term interest rates, you have been able to restructure your debt to reduce your debt costs and make more, rather than less, money. In that case, how much money did you make?

Jim Clune: Again, it is not as simple as that. Some of the outstanding debt instruments that we have at present are not linked to the Bank of England base rate. We have a debenture stock financing that is more than 6% payable, so it is not linked to the Bank of England base rate.

Q122 Geraint Davies: Fair enough, but, in the round, just so that we have a basic idea, as the Chair said, we are looking at revenue of around £1 billion and half of that will go on various debt costs that have been re-managed. Are you able to say, ultimately, how much money you have made?

Jim Clune: We cannot say at the moment, and I will explain that by saying that the way in which the project finance agreements are written means that the company and its shareholder investors are not entitled to take any profit or dividend until the very end of the concession. So, it is a 25-year or 26-year investment

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period. If we have done our sums correctly with regard to the construction cost and the maintenance cost, there may be a profit. We are still seven years away from that, and we cannot say at the moment what that profit will be.

Q123 Geraint Davies: I would not have had the money, but if I was an organisation and had put in £10 million, say, into this, I would have no idea what my return would be in seven years' time, is that right?

Jim Clune: It is very uncertain. Traffic volumes and revenues have been badly affected by the recession. We hope that that will improve over the next few years, but it is not certain at present that there will be a profit.

Q124 Jonathan Edwards: I was going to come at this from a slightly different angle, but you have started to cover it already. I want to probe a bit more, following Geraint's question, what profits were you projecting to make at the beginning, because you had to make a case to get the money in the first place.

Jim Clune: If you look at the concession agreement that we signed with the Secretary of State for Transport in 1990, there is a notional sum in that of £51 million. That was a target or an expectation.

Q125 Chair: That was expressed in 1992 prices, was it?

Jim Clune: It was expressed in 1989 prices. It was never guaranteed. It was a target, and our revenues have been significantly affected in recent years.

Q126 Owen Smith: Nice to meet you again, Mr Clune. As you have gone through the various processes of refinancing, with subsequent prospectuses produced and subsequent projections produced by the company for shareholders in order to give them some certainty about the sort of returns that they might get, have you not got some further idea about this? I think that we have all found it slightly surprising that there is no notion—which is what you seem to be suggesting—of how much money you might expect back at the end of all this.

Jim Clune: When VAT was introduced on tolls in 2002, following a judgment of the European Court of Justice, with the agreement of the Secretary of State for Transport at the time, there was a refinancing to enable the financing of the VAT. If you recall, the Government made a commitment at that time that the customer would not pay the VAT, hence the toll rates had to be deemed to be VAT-inclusive from 1 February 2003. To accommodate that finance, the Secretary of State and the company agreed a refinancing. Part of the result of that was that an interim dividend of £12 million was paid at the time. In 2002, there was an expectation, even then, that there would be a further dividend. However, at this point in time, that is not certain.

Q127 Owen Smith: So, at that point, was it not identified what the subsequent further dividend might be expected to be?

Jim Clune: It was. The target was something like £32 million. Again, it was a target, an expectation, but not a guarantee.

Q128 Owen Smith: Did the agreement between the Secretary of State and the company originally stipulate that there would not be a projected sum, or, rather, that the company would not take any profits during the period of the concession? Or was that a decision made by the company with regard to the way that it structured its finances?

Jim Clune: That was not contained in the concession agreement. I believe that that was more a product of the finance agreements.

James Rawle: It was more a product of the debt finance agreements, yes. Clearly, the lenders did not want shareholders taking money out that could be used to pay debt.

Jim Clune: Given that the project was heavily debt-financed, as James has said, the lenders wanted confidence that their loans would be repaid before any dividend was payable to the company. The very last of the debt instruments to be repaid is the Government debt.

Q129 Chair: I have just been scribbling things down here as you have been speaking, and, based on your figures of costs of £510 million in 1989 prices to begin with, and on an average figure of, say, £6 million at 1989 prices for maintenance, by 2017, you will have accrued costs of around £660 million in 1989 prices. If your figures are accurate and you finish collecting the £1 billion in revenue by then, you will have made a profit of around £440 million in 1989 prices, which will, of course, be significantly higher in 2017 prices. That is obviously a rough estimate, but does that sound wildly inaccurate to you?

Jim Clune: I think that that does not take account of the considerable costs of financing the debt.

James Rawle: The financing costs are very significant. If you look at the accounts for the past few years, you will see that we are talking about mid-£30 millions per year in financing costs.

Q130 Chair: In 1989 prices or current prices?

James Rawle: No, no, obviously, it depends how much you are borrowing at any point in time.

Q131 Jessica Morden: With regard to current toll prices, under the Severn Bridges Act 1992, the Secretary of State cannot set the tolls below the level set by the retail prices index without your agreement as the concessionaire. In the current economic climate, lots of people are calling for a toll freeze. Is that something that you would consider?

Jim Clune: As you probably know, each year, we get an Order from the Secretary of State fixing the toll prices for the following year. We expect to get that in early December this year. The finance agreements that we have with all our lenders oblige us to charge the toll calculated under the Severn Bridges Act.

Q132 Jessica Morden: Is there an argument for saying that you could collect the tolls over a longer period and that you could, therefore, reduce the tolls

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and the burden on commuters and business by extending the tolls further into the future?

Jim Clune: It is probably a mathematical possibility, but it would have to be the Secretary of State who would agree to a longer toll-collection period. We do not have the facility to decide on that. It would be a matter for the Secretary of State.

Q133 Chair: To be clear, you mean the Secretary of State for Transport rather than the Secretary of State for Wales, do you not?

Jim Clune: Yes, that is right.

Q134 Jessica Morden: Do you hear the concerns of business and local commuters about the steady increases in the tolls?

Jim Clune: We are certainly made aware of those concerns from time to time.

Q135 Jessica Morden: Has there been an economic impact on the scale of toll traffic?

Jim Clune: We do not actively survey that. Like all businesses, our business has suffered during the recession. Heavy goods traffic is down by up to 15% year on year. We are seeing levels of heavy goods traffic that are the same as 1998 levels. Like all businesses, crossings have suffered during the recession, though I cannot quote any surveys or detail on that.

Q136 Owen Smith: I would like to come in on that point. You brought the issue of reduced heavy goods traffic volume to people's attention a few weeks ago. Have you done any analysis on whether that is to do with the toll and the costs that it brings, or whether it is to do with better stock management, different logistics and modes of operation by the companies? I believe that there is reduced heavy goods traffic across the road network in the UK.

Jim Clune: We keep in close contact with other toll operators in the UK and in Euroland. Very similar figures are being quoted from elsewhere; this is a universal trend, and it has been for the last two or three years. Anecdotally, we believe that hauliers are being more efficient in managing their loads, which I am sure they have to be. The percentage reductions in traffic that we are quoting are universal, both in this country and further afield.

Q137 Geraint Davies: We are interested in freezing the toll and extending the franchise to reduce the economic burden on trade to Wales. If the franchise were to be extended by five years by the Secretary of State, do you know by how much the toll could be reduced?

Jim Clune: We have not carried out that kind of analysis.

Q138 Geraint Davies: Do you have any idea of what the price elasticity of demand is for using the bridge? In other words, if the price was halved, would that significantly increase the traffic?

Jim Clune: It is very difficult to say. When the second crossing was completed in 1996, there was a step change in the volume of traffic. Clearly, additional

demand existed at that time. We do not have any statistical data at the moment regarding price elasticity of demand.

Q139 Geraint Davies: If you have a new bridge, you have more people coming over. The big question is whether more people would come over if you reduced the price. However, you have no idea how this would vary.

Jim Clune: Both crossings do not operate at maximum capacity all the time. On bank holidays or at other busy holiday periods, we achieve maximum capacity on one or two days of the week. However, much of the time, both crossings do not operate at maximum demand.

Chair: We are going to need to speed through this now.

Q140 Guto Bebb: In terms of the current legislation, what flexibility do you have to offer differential pricing, such as off-peak or frequent-use concessions?

Jim Clune: Within the legislation and the concession agreement with the Secretary of State for Transport, we are required to offer discounts. At the end of the session, I would like an opportunity to clarify a point of evidence from a previous session. The electronic tag system that we operate offers significant discounts to regular users. Beyond that, we do not have any more flexibility within the legislation and the concession agreement. However, we offer discounts through our electronic toll-collection system.

Q141 Chair: Anyone using the toll system more than 20 times a month under one of the tag schemes would get a discount, would they not?

Jim Clune: I think that it is 22 crossings. Fleet operators and haulage associations use our season tag very efficiently.

Q142 Jessica Morden: What do you anticipate the tolls will be in January?

Jim Clune: The answer is that we do not know. We are waiting for an order from the Secretary of State. We would normally expect to receive it at the end of November or in the first week of December, but at this point in time, we do not have that information.

Q143 Jessica Morden: Would you anticipate that it will be the normal increase?

Jim Clune: If it were to follow the pattern of previous years, it would be a retail price index increase. However, that is a matter for the Secretary of State for Transport.

Q144 Jessica Morden: Is it quite late for you to be hearing about this?

Jim Clune: No, this is about the normal time.

Q145 Jessica Morden: What do you anticipate will happen with the increase in VAT?

Jim Clune: Our understanding is that a ministerial statement was made in the past few months that said that, as in 2003, the additional VAT would not be passed on to the customer. You would need to check

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that with the Highways Agency, but that is my understanding.

Q146 Jessica Morden: Have you not had any indication from the Department for Transport on that?

Jim Clune: No, nothing official.

Q147 Guto Bebb: The last time that we met, we discussed the fact that you were going to introduce credit card payment facilities during the Ryder Cup. Was that a success?

Jim Clune: It was a success in the sense that we had the system in place in time for the Ryder Cup, which was a commitment that was given by the Highways Agency and us. It was a temporary system. It caused a longer transaction time than we would have liked, but it worked.

Chair: I would like to bring in Nia Griffith on credit card payments.

Q148 Nia Griffith: There has been an enormous amount of discussion in the press on this issue. Perhaps we could look at the reasons why it took so long to bring in the credit cards, in the first place, and why we had the extraordinary situation where it was decided that the red carpet would be put down for the Ryder Cup and rolled up again once it was over, and that the system would be reintroduced later. How has it come about that you have gone through that kind of flip-flop so many times, and what do you think will happen with this in the future?

Jim Clune: I will explain the background to the credit card issue. The Severn Bridges Act 1992 precluded card payments. It mandated that payments would only be made by cash or the electronic toll collection system. The Highways Agency and the Department for Transport changed the legislation earlier this year—in March, I believe—to permit the use of credit cards. We have been planning to put the system in place since then. We had a number of difficulties in putting the temporary system in place for the Ryder Cup. Subsequent to the Ryder Cup, we have suspended the system temporarily so that we can refine our process, try to improve the traffic throughput times and improve the system generally. We will have a full, permanent system in place in the first quarter of next year. In the meantime, the ‘temporary system’, as we call it, will be back in place shortly.

Q149 Nia Griffith: Did you push for that change in the legislation in March 2010 or was it entirely down to the public?

Jim Clune: We were aware of advances in customer complaints about credit cards, which we and the Highways Agency received. I would not say that there was a huge incidence of complaints, but this clearly needed to happen to modernise the system.

Q150 Nia Griffith: As it was a short period, it was difficult to judge usage. However, based on the evidence that you have received to date, what percentage of people would you anticipate would use credit cards?

Jim Clune: It is interesting, even though the week of the Ryder Cup was a snapshot and cannot be indicative. We were surprised that take-up during that week was only about 2% of our total traffic. I am aware that we and the Highways Agency had given people notice that it would take longer to pay by credit, and people might have been influenced by that. I am not able to say what take-up would be in the future.

Q151 Nia Griffith: Chair, I think that that is an important point. I am not terribly surprised by that, because most people would pay by cash if they had the change. Having said that, it is vitally important that the facilities are there, however small the percentage may be. We all have been in the situation when, thank goodness, we have been a bit untidy and found some coins on the floor of the car. It is the only way to avoid the embarrassment of being accompanied by the police to a cash point. Therefore, even if it is a very small percentage, will you undertake to keep that facility there, because it does save embarrassment?

Jim Clune: We will be keeping the facility in place.

Q152 Chair: I would like to add to this. When we had the informal meeting, a few weeks ago, my understanding was that this system would stay in place in some form. Then, we read that it has been removed and will be introduced by the first quarter of the year.

Jim Clune: It will be back in place in a matter of days. This is a continuation of the temporary system. It will be replaced by a permanent system in the first quarter of next year, but in the meantime we will keep the temporary system running.

Chair: That is great.

Jim Clune: It was always our intention to have a temporary suspension to improve staff training and to try to refine the system and improve the throughput time.

Q153 Chair: We thank you for that. In some ways it must be advantageous to you, because there must be quite a significant cost in dealing with all of that cash with the funding of security vans and so on.

Jim Clune: There is an associated cost. Once again, if there is an opportunity at the end of the session, I would like to correct a matter of detail from some previous evidence that we received.

Chair: If it is quick, please feel free to do so now and it will be on the record.

Jim Clune: I read in a transcript of evidence recently that a figure of £90 million was quoted as being our revenues. The £90 million includes approximately £12 million or £13 million of VAT, which we pay on to Her Majesty’s Revenue and Customs. Therefore, our actual net revenue is approximately £77 million in 2010 prices. There was also reference to £90 million in cash, collected in coinage, which is not correct. Of the £70 million or so in revenue that we currently collect, approximately 30% is collected through our electronic automatic vehicle identification system, which involves direct debit. It is cashless. The balance

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is not all coinage; a significant percentage of that is in the form of notes.

Q154 Chair: I suppose that that would still incur a cost.

Jim Clune: There is a cost. It is not a huge cost; it is managed very efficiently.

Q155 Chair: Have you ever considered using a company—I am not advocating any particular company, but some have written to us; one is well known for operating car parks at railway stations—that has a system where you simply pay by credit card before you undertake your journey? You could then just drive straight through, because the camera would recognise the car. Companies have told us that they would be willing to install all of this for free.

Jim Clune: We have very much considered that in the past, and the linkage with automatic number plate recognition technology. The difficulty that we have is that vehicle toll classifications on the Severn crossings do not lend themselves to automatic number plate recognition. The best example that I can give is that of a Vauxhall Corsa private car and a Vauxhall Corsa commercial van, both of which return an identical footprint from the Driver and Vehicle Licensing Agency. We could not distinguish between the categories. In addition, our investigations have revealed that the DVLA database is not 100% accurate. People make modifications to vehicles and they do not necessarily tell the DVLA. Therefore, we have investigated the issue of automatic number plate recognition. It would need, primarily, a change in the toll classifications that were established in the Seven Bridges Act.

Q156 Chair: Is that something that we should be considering?

Jim Clune: One of the additional difficulties is that if you look at all tolling operations within England and Wales—Scotland does not now have tolling—you will see that, at each of those operations, the toll vehicle classifications are different. There is no commonality between operations. In theory, it would be possible to change the classifications, but that would need a change to primary legislation, which is the Severn Bridges Act.

Q157 Nia Griffith: How big are the attempts to implement that uniformity across all of the different tolls? Are you saying that, because of the legislation, you are not in a position even to open discussions with other toll bridges?

Jim Clune: I am aware that the European Union has published a model library of toll classifications for use by member states, but it has produced a model that contains approximately 36 different vehicle classifications. It would not be within our powers to change that; it would have to be a matter for the Secretary of State for Transport in discussion with all of the operators, possibly based on this EU model.

Q158 Owen Smith: Very briefly, I noticed that Theresa Villiers said that she thought that temporary

card payments would be back in place this Friday. You said that it would be back in place in a couple of days.

Jim Clune: I am aware that a statement was made that it would be back in place by tomorrow. As we sit here, we are still working towards that, but it may take a few additional days.

Q159 Owen Smith: Therefore it will be back in place next week.

Jim Clune: Yes; next week.

Q160 Jonathan Edwards: I wish to discuss other technologies. You talked about some of the difficulties. How does Transport for London get over those difficulties in relation to the congestion charge? Is there anything that can be learned from how it adopts that system?

Jim Clune: I am not completely familiar with the Transport for London model. I am aware that it uses automatic number plate recognition technology and DVLA linkage. I would guess that there must be a significant amount of what we would call violations arising from that, but I do not know what the percentage is.

Q161 Jonathan Edwards: Under the terms of the concession agreement, who would be responsible for adopting some of those new technologies? Would it be the Department for Transport or Severn River Crossing Plc?

Jim Clune: We are governed by the Severn Bridges Act 1992 and the concession agreement, which, as currently envisaged, has seven years to run. We have a toll plaza on each crossing and that is the technology that we currently have. It would not be within our remit to change that technology, particularly given the relatively short time left in our concession agreement. That would be something for the Government to consider for a future regime.

Q162 Jonathan Edwards: So, new technology may be something to look at following the handover.

Jim Clune: I think that that would be the case.

Q163 Jonathan Edwards: Under the concession agreement, how is responsibility for the maintenance of the two crossings divided between Severn River Crossing Plc and the Highways Agency?

Jim Clune: The core responsibility for the inspection and maintenance of both crossings is with our company. However, there is a provision with regard to the original crossing, whereby if something was discovered that could not have been anticipated when we took over the project, and if a significant cost were to be associated with that, then that risk would remain with the Secretary of State for Transport.

Q164 Jonathan Edwards: Does the Highways Agency undertake any inspections and, if so, how frequently?

Jim Clune: All our inspections are governed by the Department for Transport and the Highways Agency's regime for the inspection of principal structures. We are governed by their regulations. We also have bespoke manuals for inspecting both crossings.

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Q165 Jonathan Edwards: Are the maintenance needs for both bridges similar, or are there any differences?

Jim Clune: Both bridges are governed by the DFT principal and general inspection requirements.

Q166 Chair: There is an issue, is there not, with the pylons on the old bridge?

Jim Clune: There is an issue with the main cables on that bridge.

Q167 Chair: Has that issue now been resolved fully, Mr Clune?

Jim Clune: It has been resolved to the extent that the problem has been identified. There have been two significant inspections in the past six years, and remedial measures are now in place to arrest the problem.

Q168 Chair: Are those remedial measures expensive and will they be on an ongoing annual basis, or was the expense a one-off hit that has now been taken care of?

Jim Clune: They are relatively expensive measures, and, in accordance with the standard that has now been accepted for this work, a special inspection will take place approximately every five years inside the cables on the Severn bridge, which will be an ongoing project.

Q169 Chair: Who will pay those costs?

Jim Clune: Given that it is classified as a latent defect under the concession agreement, then it is the responsibility of the Secretary of State for Transport.

Q170 Owen Smith: I seem to recall from our informal discussion that there was a fairly important inspection due to be undertaken shortly after we last spoke. Did that inspection take place and what can you tell us about what was discovered?

Jim Clune: The inspection into the main cables on the Severn bridge has taken place. It started in March/April this year, and the physical inspection has just been completed. The report on that inspection by the specialist engineers will not be available until about February/March next year.

Q171 Owen Smith: Are you able to give us any indication as to what it will say?

Jim Clune: The indication that we have had is that the condition of the cable is certainly not worse than it was when the first inspection took place four years ago. So, at the very least, the condition has stabilised.

Q172 Geraint Davies: The technology for a more sophisticated system is clearly available, as we see in London with the congestion charge, but there seems to be a lack of appetite from your side to introduce it, in the knowledge that your concession is coming to an end. Is that a fair summary?

Jim Clune: Given that we have a toll plaza on each crossing, it would be difficult and very expensive to dismantle the existing technology and replace it with some kind of free-flow or GPS technology. That would be very difficult.

Q173 Geraint Davies: Do you accept that that should happen in the future? Do you also accept that people coming into Wales from, say, London, which has a modern system, being faced with an antiquated system, with not even the modern technology to use credit cards, which means that people have to scratch around for coins, is a problem for Wales, given that the bridge is the gateway to the Welsh economy?

Jim Clune: If you look at the technology used in other countries, such as the USA and elsewhere in Euroland, you will see that either free-flow technology or GPS collection are the technologies of the future.

Q174 Geraint Davies: So, what would need to happen for you to have an incentive to bring that forward now, or is it impossible and we will just have to wait until 2017?

Jim Clune: It would mean physically dismantling two significant toll plazas, which would be a significant amount of civil engineering work.

Q175 Geraint Davies: However, that will happen, will it not? Given that it will happen at some point, surely it should happen now from a consumer point of view. What would need to happen? Is it not possible from your perspective because you are running the old contract until it ends, so that it is a case of seeing what happens?

Jim Clune: We are continuing to operate the technology that we have, and given that the end of our concession is now seven years away, the expense and the difficulty of converting at this stage would be totally disproportionate to the benefit.

Q176 Geraint Davies: Finally, you say that it is only seven years, but in terms of other technology, such as mobile phones, people think, 'I had better not have a mobile phone for more than 12 months, because there'll be a new innovation'. Yet you are saying that for simple things, such as free-flow technology, which already exists in London, let alone Singapore and elsewhere, we will have to wait around seven years with this cart-and-horse system because, in your terms, it is not a very long time. However, for consumers in a modern economy, that is nearly a lifetime and it gives the wrong impression of Wales, does it not?

Jim Clune: I can only say that we are continuing to operate the technology that we have and that is operated by all the other tolling operations in England and Wales—

Q177 Geraint Davies: However, it is not used for the London congestion charge.

Jim Clune: No.

Chair: Thank you; we had better keep moving forward.

Q178 Guto Bebb: I want to take you back to maintenance. How many staff members do you have working on the routine maintenance of the bridges?

Jim Clune: On the inspection and maintenance side of the business, we have about 80 to 90 people.

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Q179 Guto Bebb: What would be the routine maintenance that you undertake on a regular basis? What would be the normal, routine maintenance for the bridges in question?

Jim Clune: It is a complete raft of items. The Department for Transport regime dictates that you carry out a special principal inspection of the crossings every six years. We have an in-house team of inspectors, so we undertake a rolling inspection. So, we are doing something like a sixth of that every year. A principal inspection involves inspecting every component part of the bridge within touching distance, so it is everything from the cables to the pylons, and from the surfacing to the movement joints. It is every component part of the crossings.

Q180 Guto Bebb: What is your health and safety record in relation to the maintenance work that you undertake? How does it compare with the Highways Agency's, for example? Is it better or is it worse?

Jim Clune: I cannot quote statistics for the safety record of the Highways Agency, but in the time that we have been operating, since 1992, our safety record is excellent.

Q181 Owen Smith: I have a few more questions on finance. Picking up on the points that Mr Geraint Davies made a moment ago, how often do you talk to the department about the financing deal and the sorts of technological innovations that could be implemented?

Jim Clune: We have a regular dialogue with the Highways Agency on a whole range of issues, and it has copies of our annual and semi-annual accounts.

Q182 Owen Smith: What would it take under the terms of the agreement for the Secretary of State to stipulate that he wanted you to look at introducing new technology on the bridge?

Jim Clune: It would probably require an instruction from the Secretary of State for Transport under our concession agreement, and there are provisions for instructions to be made to look at additional works, new projects or new technology.

Q183 Owen Smith: What provision is there under the terms of the agreement for the Government to get some insight into the anticipated revenues that you might receive at the end and therefore test the ability of the company to withstand some of the costs of implementing new technology?

Jim Clune: The department and the Highways Agency are fully au fait with the information on our revenue stream and our projections.

Q184 Owen Smith: Who are the principal shareholders in the company?

Jim Clune: The principal shareholders are John Laing plc, VINCI plc, a multinational construction group, Barclays Capital and Bank of America.

Q185 Owen Smith: So, effectively, there are four shareholders.

Jim Clune: There are four equity shareholders in the company.

Q186 Owen Smith: You mentioned the debenture loan, and the debenture shareholders that you have subsequently. Is that separate?

Jim Clune: It is separate. It is stock that was issued in 1992.

James Rawle: Yes, £131 million-worth of stock was issued in 1992. There are about 250 debenture stockholders, and the larger holders tend to be the pension schemes, but there are a few smaller stockholders as well.

Q187 Owen Smith: Individuals?

James Rawle: Yes.

Q188 Chair: One of the things that I hear bandied around the shops and hostelrys of Chepstow is that it is all owned 'by the French'. Perhaps we can put that one to rest now.

Jim Clune: I am happy to put that one to rest. VINCI, the French and multinational construction group, holds 35% of the equity of Severn River Crossing plc; however, Severn River Crossing is a 100% UK-registered company.

Q189 Chair: Going back a little bit, presumably the bid that was put together by those four companies was chosen purely on the grounds of cost.

Jim Clune: The initial bid was chosen on the grounds of cost for the financing, design and construction of the second crossing. It was always the understanding that the winner would then negotiate a concession with the Secretary of State for Transport.

Q190 Chair: So, it is reasonable to assume that, had it gone to a different organisation, it would have been more expensive, because yours was the cheapest bid. Therefore, the tolls would either have continued for longer or at a higher price.

Jim Clune: That is quite possible. The bid was won as a result of a competitive tender.

Q191 Chair: Just out of interest, we all keep talking about 2017/18 as the cut-off date, but the law allows for tolls to be collected for another five years. Is it not quite likely that you will be asked to continue collecting them rather than the Government coming in and starting again with a different toll collector?

Jim Clune: The Severn Bridges Act contains a maximum period of 30 years for our concession to operate and, as you say, beyond that, there is provision for a further five years, where the Secretary of State could ask us to collect tolls on his behalf. The Secretary of State for Transport has incurred expense on his account during the period, including the work that you mentioned on the main cables, so there is a facility for that to be collected back through extra tolling revenue during this additional, notional five-year period.

Q192 Chair: However, we are getting close to the end of this period, so you must have had discussions with the Department for Transport about what will happen when that £1 billion is collected.

Jim Clune: Actually, we have not had those discussions.

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Q193 Chair: I will continue as we have a minute or two. The day will come when you collect the £1 billion and, as I understand the Act, if you reach £1 billion first thing in the morning, at 9 a.m., you can continue to collect tolls for the rest of the day. That could amount to quite a bit. What do you actually get in a day?

Jim Clune: We get £77 million divided by 365—I cannot calculate the answer.

Chair: I cannot quite do it myself off the top of my head.

James Rawle: It depends on the day of the week as well.

Q194 Chair: It is a couple of hundred thousand pounds. So the difference between reaching your £1 billion at 9 a.m. or 11.59 p.m. could be a couple of hundred thousand pounds of profit.

James Rawle: I think that our entitlement ends when what is known as the ACRR equals the RCRR. So, when the revenue target is reached, that is the end of our entitlement, as we understand it.

Q195 Chair: I may have misunderstood, but I was looking through the finer points of the Act and it looked to me as if it stipulated the money taken on the day.

Jim Clune: It may well do so.

Q196 Chair: I just wondered if there was a possibility of a big donation to a Welsh charity, perhaps.

Jim Clune: I would have thought that if the revenue target is achieved at lunch time on a particular day and we continue tolling for the rest of that day, then the rest of those tolls go to the Secretary of State for Transport.

Chair: Right—we shall clarify.

Q197 Owen Smith: To go back to the shares—although that was an entertaining aside—VINCI owns 35% of the shares; could you give us the breakdown for the other three principal shareholders and the proportion that the debenture shareholders have?

Jim Clune: John Laing also has 35% of the equity shareholding, Barclays Capital has 15%, and Bank of America UK has 15%.

Q198 Owen Smith: You were also going to explain the debenture share.

James Rawle: A debenture is not equity stock; it is a form of debt.

Q199 Owen Smith: What was that raised for?

James Rawle: It was to finance the project. Of the £131 million that was raised in April 1992, £62 million was used to pay half of the Government debt on day one and the balance was used for the ongoing financing of the construction.

Q200 Owen Smith: The debenture stockholders are not paid a dividend either—apart from the one-off dividend that you mentioned earlier.

James Rawle: They are paid a coupon; they get interest payments on 30 June and 31 December every year.

Q201 Owen Smith: I have one further question. I understand that none of the major shareholders takes anything at all on an annual basis, and that they will be paid their proportion of the profit that is made at the end of the whole project. So, what happens with the moneys that are made in profits each year? If your operating cost is £12 million and you are taking £77 million, what happens to the remainder? Is it sitting in a bank account somewhere?

James Rawle: It is sitting in a bank account and it is accumulating to pay down the next tranche of debt.

Jim Clune: It certainly is not the difference between £77 million and £12 million. There have been years when, on paper, we have declared a small profit and there have been years when our accounts show losses.

James Rawle: Broadly speaking, the senior debt of the project is now repaid. The bank debt was repaid in 2007 and the European Investment Bank debt was repaid in 2009. Now, it is an accumulation of cash to pay off the debenture in 2013.

Jim Clune: As well as the balance of the Government loan.

Q202 Geraint Davies: To return to the previous theme about the introduction of certain technology and your answer that it is not worth introducing this technology because the shop will be closed in 2017, if you knew now that you would be given a fresh franchise to run the Severn crossing beyond 2017, would you introduce that technology now?

Jim Clune: We would certainly commence to build a business case on that basis.

Q203 Geraint Davies: So, are you in discussions with the Government about the possibility of your continuing that? Are you doing that work to build that business case to say, 'Hold on, the world will not end in 2017; if we knew what was happening, this is the sort of the thing that we would want to do.' Although you might not have all of the numbers, you could ask for a signal.

Jim Clune: We are not having that kind of discussion with the Secretary of State for Transport at this time. We are focusing on the fact that, under the Severn Bridges Act 1992, our concession will end in, let us say, 2017.

Q204 Geraint Davies: However, do you not think that, from the point of view of Wales and the Government, you and the Secretary of State—or the Government—should be having that discussion? We need the technology to be in place sooner rather than later for the good of customers and the Welsh economy.

Jim Clune: That really is a matter for the Secretary of State for Transport.

Chair: I sense some recommendations coming up here.

Q205 Geraint Davies: Are you ready for those discussions? Is it not incumbent upon you to realise

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that the world will not end in 2017, that we need new technology, and that parameters are needed to invest that rationally from the point of view of your shareholders and debenture holders, and that you should make the case? Have you not made a case at all? Do you have a business plan for that eventuality, or are you waiting for the phone call and then you will not be prepared for the response?

Jim Clune: If the Secretary of State required our input on that business case, we would certainly be ready to provide it. We would obtain the data.

Q206 Geraint Davies: So, if the Secretary of State phoned you and asked you to come along the following week to submit recommendations for technological investment, if he were to extend the franchise, you would know what to say, would you? What would you say?

Jim Clune: We would certainly have access to the expertise that is necessary to build a business case on new technology.

Q207 Geraint Davies: In short, if you knew that there was to be an extension, and that the concession would not come to an end in 2017, you would invest in technology now. If it were to run 10 years longer, you would start the ball rolling now rather than leaving the old booths in place with people taking the money?

Jim Clune: If there was a possibility of an extra franchise, we would speak to our shareholder companies and make a decision on building a business case and assessing the appetite for investment.

Chair: Thank you, Mr Clune; that is most helpful.

Q208 Owen Smith: What is the minimum toll that you could charge in order to cover the maintenance and operation costs of the bridge?

Jim Clune: Given that the project finance agreements require us to charge the—

Q209 Owen Smith: I understand that. I am sorry, but you have misunderstood me. Were you not financing the debt, using your experience to advise the Government, which will be taking ownership of the bridge in 2017, what is the minimum that it could charge, if it were running the bridge as a not-for-profit concern, in order to maintain it?

Jim Clune: That is not a calculation that I have to hand at this point.

Q210 Owen Smith: Could you give us an estimate?

Jim Clune: We could make an estimate, but it would need to be after the hearing.

Q211 Chair: You spend £6 million a year on maintenance.

Jim Clune: Yes, it is approximately half of the £12 million operating expense cost in 2010 prices.

Q212 Chair: How much a day do you normally take in tolls?

Jim Clune: We take about £6 million plus a month.

Q213 Chair: So, two months would cover the current maintenance cost of the bridge, minus whatever the Highways Agency is putting in on top.

Jim Clune: It does not take account of the ongoing cost associated with financing the remaining debt.

Q214 Chair: No, but that will be wiped clear by 2017—that will not be the Government's problem. The Government's problem will be the £6 million per year that you currently have to spend plus whatever the Highways Agency is spending on top of that.

Jim Clune: The total operating cost, including the toll collection infrastructure, is £12 million a year—it is maintenance and toll collection.

Q215 Owen Smith: How is that £6 million split between the two bridges? What proportion is spent on the new bridge and what is spent on the old bridge?

Jim Clune: It is not a calculation that I have immediately to hand, because the inspection and maintenance requirements vary between the two bridges. So, I cannot provide you with that information as we sit here.

Q216 Chair: Before I bring in Jonathan, do you have any idea how much the Highways Agency has to spend in addition to the amount that you are spending on the maintenance of the bridge?

Jim Clune: I believe that the figure published for work on the main cables to this point—the work is ongoing—is in the region of £18 million.

Q217 Chair: Is that over a period of three or four years?

Jim Clune: It started in 2004.

Q218 Chair: So, the Highways Agency is spending around £3 million a year.

Jim Clune: That would be the average over that period of time, but the work will continue. The standard that is now accepted as being the requirement for looking at this will continue.

Q219 Chair: I am scribbling on the paper, and I realise that you do not have the figures, but it looks to me that it is costing about £15 million a year to maintain the bridge.

Jim Clune: Yes, that is the operating cost together with the contribution from the Highways Agency, excluding debt finance.

Q220 Chair: Six million pounds a month comes in in the form of revenue.

Jim Clune: In 2010 prices, yes.

Q221 Chair: That means that the Government could make a significant cut to the toll and still have more than enough money to maintain both bridges at the current required level.

Jim Clune: That would be a matter for the Secretary of State in the future.

Q222 Jonathan Edwards: Does the maintenance bill, and the operational costs, include routine maintenance and also larger maintenance projects?

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Jim Clune: It includes large maintenance projects as well.

Q223 Jonathan Edwards: Do you have any large maintenance projects planned before the end of the concession that need to be undertaken?

Jim Clune: Yes, we do.

Q224 Jonathan Edwards: Can you give us some detail on that?

Jim Clune: I can give some examples. We have embarked on a project of repainting the underside of the second crossing—the main cable-stayed bridge. That painting project will probably continue until 2015. We will be carrying out some resurfacing on the second crossing between now and the end of the concession. Those are the two most significant projects that immediately come to mind.

Q225 Chair: Thank you. I will allow one more question, and then we will bring this part of the meeting to a close.

Geraint Davies: To sum up, you are basically taking £72 million a year and it is only costing £15 million a year, so on my calculation the Government could reduce the tolls to 20% of what they are now, or something of that order. Assuming that your business comes to an end in 2017, we are interested in the economic possibilities of the Government reducing the toll to cover the maintenance costs. What you are implying in your figures is that we could charge something in the order of 20 to 30% of the current charge and cover all of our maintenance costs, which might create a massive stimulus for the Welsh economy.

Jim Clune: Once the remaining outstanding debt is cleared, you are just looking at the ongoing maintenance costs.

Geraint Davies: That is very helpful.

Q226 Chair: Thank you, Mr Clune; that is most helpful. We will adjourn for four minutes or so and return to take evidence from the Minister.

Examination of Witnesses

Witnesses: **Ieuan Wyn Jones AM**, Deputy First Minister and Minister for the Economy and Transport, **James Price**, Director of the Infrastructure Group, and **Claire Severn**, Head of Transport Policy and Legislation, Welsh Assembly Government, gave evidence.

Q227 Chair: [*Translation.*] Deputy First Minister, thank you for welcoming us here to the Assembly. It is wonderful to be back today. Although we all know each other, please introduce yourselves for the record. I am David Davies, the committee Chair.

Ieuan Wyn Jones: [*Translation.*] Thank you for your warm welcome. We are very pleased to see you here in the Assembly. My name is Ieuan Wyn Jones, the Deputy First Minister and Minister for the Economy and Transport. On my right is James Price, the head of the transport department, and also with me is Claire Severn, who also works in the department.

Chair: [*Translation.*] Thank you. We will start with Geraint Davies.

Q228 Geraint Davies: Obviously, you will be concerned about the economic impact of the tolls on the Welsh economy in terms of inward investment and trade. Do you have a clear idea of how the economy would be affected by a reduction in the tolls at the moment?

Ieuan Wyn Jones: As I think you know, we have commissioned a study into the economic impact of the tolls. It is therefore a bit difficult to give a precise answer to your question about the impact on inward investment and trade until the results of that study are known. It is probably better for us to look at it in terms of the evidence gathered and discuss that with the committee rather than give you a rather imprecise and perhaps subjective answer now.

Q229 Geraint Davies: Given that the tolls are levied on what is in essence the gateway to south Wales in terms of inward investment, namely the Severn

bridge, and given that there are threats to the progress on electrification of the railways and so on, and taking into account that we have just heard in evidence that the tolls might be reduced to something like 20% of their current level if they were just covering maintenance, would you be generally in favour of a significant reduction in the tolls to stimulate the Welsh economy?

Ieuan Wyn Jones: Obviously, we are not responsible for the bridge or the tolls. Clearly, the nature of the way in which the tolls are collected is decided by statute. Therefore, any change in the relationship has to be by agreement between the Department for Transport and the concessionaire. If there were to be that change, someone would have to make up the cost of the differential. That would obviously be a matter for the DfT. I would like to look at the impact of any reduction in the tolls in light of the evidence gathered in our study and share that with the committee at the appropriate time. That is not going to happen today or tomorrow, but we expect to have an initial response from the study in the next few months. It seems that we lack real evidence on this. I have seen some of the earlier evidence sessions. I am not privy to what you have heard today, but, looking at the previous evidence, it seems that there is a lack of real, hard empirical evidence. I think that it would be useful for all of us to consider the impact in light of the evidence from the study and then make a proper judgment.

Q230 Geraint Davies: That said, the evidence that we have gathered suggests that companies that locate their businesses on the other side of the Severn have access to a much bigger economic market than those on the Welsh side. If this trading tariff, which is the

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toll, were removed, some of that inward investment would come to Wales. For our recommendations, I guess that the question is: what should the toll be after the franchise ends in 2017? What we have just heard is that, if it was reduced to cover the maintenance charge only, it would be something like £1 a car, which would be a great premium for inward investment in Wales. I appreciate that we do not have all the empirical evidence, but surely that should be the direction of travel.

Ieuan Wyn Jones: There is the issue of the current toll, until such time as the period of the concession ends. Then there is the period during which the maintenance fund can be built up, which is the second phase, and there will be another phase after that. The question is whether there is going to be a situation where a reduction in the toll is justified and does not jeopardise the paying off of the cost of the bridge. We must all recognise that there would not otherwise be a bridge.

It seems to me that the bridge would not have been built unless it was a tolled bridge. You have to recognise that somebody has to pay off the cost of the bridge. That is currently done through the toll. There is a proper debate to be had about what to do in the future. In other words, there is a trade-off to consider at the appropriate time: the toll could be reduced to the kind of level that has been mentioned, or the toll could be set, at some future time, at a level between £1 and its current level, in order to invest in infrastructure.

Q231 Geraint Davies: I guess that what I am saying is this: if the Assembly Government signalled—now or at some point in the future—that it knew that the debt would be paid off by 2017 and knew that the minimum price chargeable would be about £1 per car to cover maintenance, and if it also signalled that that was what it wanted to do, business could rationally start to arrange inward investment now, rather than later, for the good of the Welsh economy.

Ieuan Wyn Jones: It would be difficult for me to set now what I think the price should be in the future.

Q232 Chair: Hypothetically, would you like the price to be lower than it is now, if it that were possible?

Ieuan Wyn Jones: Of course, if it were possible. However, someone has to pick up the cost. As the current concession stands, the cost is borne by the motorist. If the DfT felt that it wanted to make a contribution towards that cost, that would be a matter for the DfT.

Q233 Chair: Do you share any of the concerns expressed to us by some environmental groups that support reasonably high tolls, on the basis that they discourage overuse of cars and put people on trains? Would you accept any of those arguments?

Ieuan Wyn Jones: I have looked at that evidence, and I do not think that I would go that far. However, there are trade-offs to be made here. There is the matter of investment in the railway network, which we hope would include electrification of the line to Swansea, together with the potential for high-speed rail in the

future—that is not going to come cheap. So, the trade-off is around where we want our money to go. Do we want to spend it on better road links or on alternatives, such as the rail network?

Q234 Nia Griffith: Perhaps the Deputy First Minister could clarify something. The figures that we have been looking at suggest that, once the debt has been dealt with, the maintenance costs could be covered by perhaps a quarter of the current toll. Would he prefer that model, or is he suggesting, as we heard from one of the railway providers, that motorists could subsidise other forms of transport, with the toll kept quite high and the money used for other purposes? What position will the Assembly Government take in these negotiations, which will have to start pretty soon?

Ieuan Wyn Jones: There is a proper debate to be had on that. I do not think that the Government has come down firmly on either side. You could get to a point at which the toll is pretty low, or you could say, ‘This is an opportunity to have investment in the wider transport infrastructure’. Provided that the money was invested in the wider transport infrastructure, and not just put into a general pot—which would, presumably, be the Treasury pot—you could have a debate about which one of those options you would choose. The Assembly Government has not taken a position on that yet.

Q235 Nia Griffith: Would it not be best for the local economy to take away the toll, which is obviously having an effect, certainly on the big transport providers in my constituency and some of the people who operate on both sides of the border on a regular basis? Would not the trade-off of having a lower toll, in terms of the input into the Welsh economy, be much more important than raising cash for other things?

Ieuan Wyn Jones: That is a debate to be had, and I am not persuaded either way at the moment. That is why I have commissioned the study—to see what the real impact is. There is also the issue of the ownership of the bridge once this period is over. We would not like to see a situation in which the bridge remains in the ownership of the DfT, and the money raised goes into a general pot somewhere. It seems to me that the argument is—this is where we should be positioning ourselves—that either we reduce the tolls, as you have suggested, or, if we do not, we maintain a level of tolls that helps the Welsh transport infrastructure. That is what the debate should be around.

Q236 Owen Smith: It is lovely to see you, Deputy First Minister. Thank you for coming to see us. I would like to get back to the rationale behind the study. You have given some very interesting answers to the questions thus far, and given us a surprising level of indication of how ambivalent you are as to whether the toll should be brought down or raised when it goes back to public ownership. Why did you start this study, and what are you hoping to find out exactly?

Ieuan Wyn Jones: We have been lobbied, as I am sure that we all have, about the impact of the tolls over a number of years. The lobbying increased at the

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time of the recession. A lot of logistics companies—Nia has mentioned some in her own constituency—and others have been saying that, because of the recession, they felt that the cost of the tolls was having an adverse impact on the viability of their businesses. As a result of that—and I must admit that there were some debates about this in the Assembly too—questions were being asked about what I thought about reducing the tolls and so on, as the Chair has asked today. I looked at the evidence and there was hardly any empirical evidence about the impact of the tolls on businesses. We all have anecdotal evidence about it, but none of us had any hard evidence. We thought that it was important to have that evidence. Therefore, we decided to commission a study. That is the background.

Q237 Owen Smith: What exactly are you hoping to get out of the study, and what is it looking at?

Ieuan Wyn Jones: I will ask James to come in on this in a second. Basically, it needs to look at the impact of the tolls on the economy of Wales, bearing in mind what impact it would have on the economy if we did not have the bridge, as well as not having any tolls. That is a bit a subjective, so it is difficult to get all the evidence that we would like. James, would you like to mention the terms of reference?

James Price: Absolutely. I will cover some of the things that we are going to try to get out of the study. In essence, apart from anecdotal evidence, and apart from understanding the level of traffic flow on the road—which is clearly far more than anecdote—we do not have the information necessary to take a strategic policy position. We want to understand things such as what is the real price elasticity of demand—we do not know that at the moment. We want to understand how that affects different sectors of industry and locational decisions, and, if it does have an effect, to what extent that occurs. We want to understand, on the back of the elasticity information, if the tolls were not there, what the demand would be, and how that would affect the rest of the transport network in England and Wales. It has massive effects. It is not just that stretch of road that is affected.

Q238 Chair: Have you had good co-operation from the Department for Transport, Mr Price?

Ieuan Wyn Jones: I had a meeting with the Secretary of State in July. I told him that we were undertaking this work and I have promised to share its results with the department.

Q239 Chair: Has the department been helpful in providing you with evidence? Presumably it has a lot of evidence that is useful to this report.

Ieuan Wyn Jones: Yes, it does. A lot of the information is already in the public domain. For example, we know that, during the recession, there has been a decline in traffic and that the number of freight movements has dropped quite considerably. We have that kind of evidence, which is quite helpful.

Q240 Owen Smith: All that work will forearm you for discussions with the Department for Transport about what will happen post-handover, which I

presume the Assembly will be involved in. How do you see that working? I presume that there is no formal mechanism for involving the Assembly in that series of decisions—it is entirely down to the Secretary of State.

Ieuan Wyn Jones: It is, but because of the strategic importance of the bridges to Wales, there is quite a lot of discussion with the Department for Transport about the future, as there is on the electrification of the railway line. There has been a lot of discussion. I have had a meeting with the Secretary of State, but I know that James and the officials have had many discussions with the department about the bridges, the tolls, and the impact, and what happens when the concession period and the maintenance period end, and what happens in the future. We want to engage with DfT because I think that there is merit in us at least opening up the discussion on the eventual ownership of the bridges.

James Price: It is a standard agenda item at every meeting that we have. We always raise it with the DfT. The DfT is helpful. We have very good relationships with the DfT, the Highways Agency and the bridge because we run the network that it leads directly into. From the DfT perspective, it is genuinely saying that it is too early for it to say what the future of the bridges will be beyond 2017, which is why I think that it is very important for us to get the information out now and be able to have a very strong policy position to go in with.

Q241 Guto Bebb: [Translation.] I will be asking my questions in Welsh. In terms of the fundamental principle, would you accept that the new bridge would not have been built unless a consortium of private companies had come together to tender for this work?

Ieuan Wyn Jones: [Translation.] That is correct.

Q242 Guto Bebb: [Translation.] Accepting that, the Assembly Government does not therefore oppose the principle of tolls, because, in accepting the need for private companies to build such a resource, one would accept that the tolls are necessary. Therefore, I assume that the principle of tolls is not something that is opposed as such.

Ieuan Wyn Jones: [Translation.] I would not quite put it in those terms. I would say that it was perfectly obvious, as a matter of fact and reality, that there would be no bridge without tolls. Whether we are in favour of tolls or not is a different issue, of course.

Q243 Guto Bebb: [Translation.] Yes, but, in a way, you accept them in order to get that type of investment.

Ieuan Wyn Jones: [Translation.] That is the reality of the situation.

Q244 Guto Bebb: [Translation.] In terms of why you have commissioned the study, is the Assembly Government too concerned about the level of the toll rather than the principle of having a toll?

Ieuan Wyn Jones: [Translation.] Once again, it is difficult to say. There are a number of debates to be had here. There is a debate as to whether there should be a toll at all, and there is a debate as to the level of

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the toll. However, I am open minded on these issues, because, until I have received information back from the study, it is difficult to come to a final decision. The reality is that there is a bridge and there is a toll. The question is whether we are now looking at a time when the toll will reduce, or at a time when the toll will disappear altogether. That is the debate, I think. Until we have the evidence, it is difficult to make a final decision.

Q245 Guto Bebb: [*Translation.*] On the point of evidence, you have already stated that you have no hard evidence noting which sectors of the economy or business in Wales are affected by the toll on the bridge, but you have also stated that you, as an Assembly Government, have been lobbied regularly on the issue. Are there specific sectors, in addition to the road haulage sector, that have been lobbying hard?

Ieuan Wyn Jones: [*Translation.*] Not to my knowledge. I know that the logistics sector has been lobbying quite hard. Perhaps James and Claire might have some more information. It has primarily been the freight organisations.

Claire Severn: Yes. You will get occasional correspondence from travelling members of the public and those visiting Wales, but not in significant numbers.

Q246 Nia Griffith: Have you ever looked at the evidence that might exist of companies choosing not to settle in Wales? We talk about evidence from people using the bridge, but there may be evidence from people who have chosen deliberately not to put themselves in the position of having to use the bridge, which could be having a detrimental effect on investment in Wales.

Ieuan Wyn Jones: I would not say that we have done so specifically. Looking at some of the evidence that you have been given, we have to remember that the cost of the toll is only one of the costs to the business. When you look at the total cost for a business, you will see that not only must you consider the cost of the toll, but also, if you were to settle on the other side of the bridge, you would have to consider what your rental charges and business rates would be and so forth. In the total picture, does the toll, of itself, determine that? I think that it would be dangerous for us to say that it is just a matter of the toll. You probably have to look at the wider picture.

Q247 Nia Griffith: Will that be included in the study? Will you be looking at this?

James Price: It will be included, yes. Purely from an economics point of view, if you look at the cost of transport economics over time, you will see that the cost of the toll, relative to other transport costs, has obviously been falling in relative terms. So, 15 years or so ago, haulage contractors had proportionately more concerns about how much of their costs were going on tolls than they do now, as a result of the fuel duty escalator and the escalation in the cost of fuel.

Q248 Nia Griffith: To clarify, the businesses that I am talking about are those that may be operating over a wide area and have more customers in England than

in Wales. So, the temptation, if there are no other incentives, such as low rents, would be to go over the border, simply because an additional cost was being imposed upon them to cross the bridge. Will you be looking into that in further detail?

Ieuan Wyn Jones: Yes, I think that James has indicated that that would be the case. With all other things being equal, if rents were the same on both sides of the bridge, then, clearly, the tolls would be an added factor. Is that the case? We do not know.

Q249 Guto Bebb: [*Translation.*] To bring you back to the issue of the tolls, what we are expecting is that the tolls will cease around 2017. One idea that has been presented in evidence to the committee is the possibility of extending the concession period in order to reduce the tolls now, because we are currently in a recession. Would that be part of the study? If not, what would the Government's opinion be on that sort of concept?

Ieuan Wyn Jones: [*Translation.*] I am not sure how much assistance that would be, to be honest. Although you would be paying a lower toll now, you would be paying it for a longer period of time, so, in a way, you would be doing the same thing. I am not sure how much assistance that would be. The only help would be if the Department for Transport in London was willing to provide a subsidy, and I do not see that happening.

Q250 Chair: [*Translation.*] The Assembly could possibly do that.

Ieuan Wyn Jones: [*Translation.*] Not only does the Assembly not have the funding to do that, we do not have the competence in this area to do that.

Q251 Guto Bebb: [*Translation.*] There is a principle here. Businesses are being squeezed very hard, so if the tolls were temporarily halved, for example, as a quid pro quo, although you would end up extending the concession, would that not be of assistance in the short term?

Ieuan Wyn Jones: [*Translation.*] Yes, it could possibly be of assistance over the next two years, but who knows? Our conclusion is that it is more appropriate that we try to speed up the process of bringing the tolls to an end sooner rather than later.

Q252 Guto Bebb: [*Translation.*] Is that conclusion part of the report that has been commissioned?

Ieuan Wyn Jones: [*Translation.*] I cannot say for certain whether that will be part of the report. James may want to comment on that.

James Price: I do not think that the report will address that specific question, but it will give us the information that we need to address that question, if that makes sense.

Claire Severn: We have also made the commitment that the study that has been commissioned is the first step. If it is decided that insufficient evidence has been gathered, we will commission another study to identify what we need to look at in more detail. If that deficiency of information is identified, that is what we would do.

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Ieuan Wyn Jones: [Translation.] That is an important point. If the study that we have commissioned raises many questions similar to the one that you have just raised, we would be happy to do more work on those issues, to provide the fullest answers.

Q253 Geraint Davies: I appreciate that the study will capture the elasticity of demand among current users and indicate whether they make greater or lesser use of the bridge, given the price. However, it will not capture those companies that have located on the English side because of the bridge and do not, therefore, use the bridge, or those companies that stay in Wales, such as a small building company with one van that goes around refurbishing local houses. That small building business would possibly like to go across to Bristol to refurbish houses there, but the daily cost of doing that would be massive compared with its other costs.

You mentioned, Mr Price, that the cost of the toll, as a percentage compared with petrol and so on, was decreasing, but surely that is only the case for big haulage companies. It is clearly completely uneconomical for jobbing builders to trade over the bridge, because of the penal cost of the toll. Your study will, therefore, not pick up the potential of those small businesses that do not use the bridge or the companies stuck in England that have made the decision not to go to Wales, because of the toll. How will you capture that important inward investment, because it clearly cannot be done by calculating the elasticity of demand?

James Price: Absolutely. The elasticity of demand point that I made was not simply about looking at what is currently happening on the bridge. We would also look at other tolling regimes elsewhere in the world. We would then do a desk-based study, looking at evidence from Wales and elsewhere in the UK and the wider world about locational decisions, and also look at what effect it would have on different business sectors. Basically, you would model it. You would ask what kind of effect it is having on the jobbing builder or on a middle-sized company. So, I think that it will capture that.

Geraint Davies: So, you do some qualitative stuff, such as interviewing business, as well.

Chair: We are very enthused by this subject, but we are going to have to speed up a little.

Q254 Jessica Morden: Can you remind us when you will finish and publish this study?

Claire Severn: We are going out to tender at the moment—the invitation to tender is due to go out within the next three weeks. At that point, depending on the tendering and procurement process, assuming that a four to six month window will be needed to undertake the research, our current plans are to publish the study next summer. However, we hope that the initial findings will emerge during the spring.

Q255 Jessica Morden: As an MP whose constituency includes one of the Severn bridges, I am concerned about the immediate issue of what will happen in January. I talk regularly with hauliers such as Owens Road Services, but commuters in my

constituency might be teachers in Bristol, for instance, who will be hit very hard annually by the toll increase. I hear what you are saying about the study, but in the current economic climate, do you think that there is a case for a toll freeze for this year?

Ieuan Wyn Jones: I hesitate to say ‘yes’, because I do not know what might emerge from the study. It may be that the study will be published too late to give that kind of answer, but we have to make a difficult judgment. If the tolls are frozen rather than allowed to go up to the figure that they would have reached otherwise, someone has to meet the cost. You either extend the concession, or there is a level of subsidy given by the Department for Transport. I suppose that the only realistic option in the short-term, given that everyone is short of money, is to extend the concession period. Many people would think that that is a sensible decision in the short-term, but there are downsides to it as well, which is that you make people pay the tolls for a longer period.

Q256 Jessica Morden: The last Government froze the tolls on the Humber bridge a couple of years ago, but somehow Wales is being treated differently.

Ieuan Wyn Jones: It is being treated differently because there are different regulations and a different set of circumstances. Given the way in which the Severn bridge legislation is written, the toll is increased in line with the retail price index every year. Therefore, legislation would have to be amended to change the way in which the tolls are raised, and I understand that that is not likely.

Q257 Jessica Morden: Have you had any discussions about what will happen in January, with the increase in VAT, which will be on top of the annual increase in tolls?

Ieuan Wyn Jones: My understanding is that they are not likely to impose the VAT increase.

James Price: Our understanding is that the VAT increase will not be passed on to the end user; that is the commitment on tolls.

Q258 Jessica Morden: As you will be aware, when VAT was cut a couple of years ago, the cut was not passed on to users, which caused huge consternation. As a constituency MP, it is quite a tortuous process when you are negotiating between the Department for Transport and Severn River Crossing plc.

Ieuan Wyn Jones: I am happy to ask my officials to discuss the January issue with Department for Transport officials. The department has not been receptive to that argument in the past, but it may feel differently in the current economic circumstances.

James Price: That is the line being taken—that the department is not looking to pass it on.

Ieuan Wyn Jones: No, but it could freeze the toll. However, my understanding is that it is unlikely to accept that.

Q259 Owen Smith: To turn the subject slightly, one of the other very interesting areas that we have looked at is the nature of the payment system on the bridge, and the widespread dissatisfaction with its being a cash-only system and the problems that that causes.

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This morning's evidence from the company was enlightening, in as much as it clarified its position with regard to the possibility of putting in more modern technology, as Transport for London has done to deal with the congestion charges. In essence, it said that it is not in its financial and economic interest to invest in that type of new technology, given that there are only five years or so of the contract to run. Is there a case for the Secretary of State to consider entering into negotiations with the company to look at the profits that it is making? Should it be obliged to invest, in some respect, in new technology, rather than the state—whether it is the Westminster Parliament or, perhaps, the Assembly at some point—bearing the cost of implementing new, more up-to-date technology?

Ieuan Wyn Jones: If I could side-step the issue of cost for the moment, I would favour the introduction of a more modern means of payment. We were pleased that payment by card was available for the Ryder Cup, although it meant that you had to enter your PIN, and there was a bit of a delay with that. I believe that that will be reintroduced fairly soon.

James Price: Yes.

Ieuan Wyn Jones: I would like people to be able to pay in the same way as at virtually all similar set-ups in the UK and across the world. The current system is archaic; either you have to ensure that you have the right change for the coin bin, or you queue up to pay with cash only. I would modernise those arrangements, and I urge the Department for Transport to have discussions with the concessionaire. That is our position.

Q260 Owen Smith: That would mean the Secretary of State effectively changing the nature of the agreement with the concessionaire.

Ieuan Wyn Jones: Yes. There had to be a change in the law to enable payment by card for the Ryder Cup. I would certainly favour that.

Q261 Chair: [Translation.] Deputy First Minister, some have complained about the fact that you have to pay to get into Wales but that you can travel to England for nothing. Do you see any problems with that?

Ieuan Wyn Jones: [Translation.] I know that a few people have made that complaint, but the likelihood is that if you leave, you also return, in most cases.

Q262 Chair: [Translation.] I could imagine people complaining if you had to pay to get into England. I am not sure what the answer is.

Ieuan Wyn Jones: [Translation.] We have not received any complaints on that issue.

Q263 Chair: [Translation.] We have received a complaint from a tourist organisation, I believe.

Ieuan Wyn Jones: Claire, has anyone raised this issue with us—that they have to pay to come into Wales, but can go to England for free?

Claire Severn: When we get correspondence from tourists, it tends to be because they did not realise that there was a toll at the Severn bridge, so they were a bit shocked that, as they saw it, all of a sudden they

were being asked to pay to go on holiday to the Gower. However, we do not get a significant volume of correspondence on that.

Q264 Owen Smith: Do you have a view on that? Personally, I can completely understand why there should be a premium on coming to Wales; it is well worth paying to come here.

Ieuan Wyn Jones: Most people who make the journey travel both ways, so I am not sure that it is such a major issue.

Q265 Jonathan Edwards: [Translation.] Good afternoon, Deputy First Minister. It is a pleasure to cross-examine you. On the Welsh Government's economic strategy, I would think that the control of assets and resources is important, so I want to probe you on the ownership of the bridge after the concessionary period comes to an end. Is the Welsh Government eager to develop co-ownership or complete ownership of the bridge? What discussions are you having with the UK Government on that?

Ieuan Wyn Jones: [Translation.] That is an issue that we have been looking at. Once the concessionary period is at an end, the ownership of the bridge becomes an issue for discussion. Naturally, it is something that we would want to consider at that time. It is an issue that we could discuss with the Department for Transport, but the response that we have had to date is that it is too early to have that debate. However, we raise it with the department from time to time.

Q266 Jonathan Edwards: [Translation.] It affects everything, does it not? That includes prices, as you said earlier. The evidence that we have received so far is that it would cost £12 million a year in real terms to maintain the bridge, collect the tolls and so on. If the Welsh Government owned the bridge, at what level would the tolls be set? Would they be set on a not-for-profit basis, so that we could cut the tolls to 20% of their current level, or would they be raised to another level so that the money could be spent on the transport infrastructure in Wales on a wider level. Which of those two systems would you prefer?

Ieuan Wyn Jones: [Translation.] I hope that you do not mind me saying that I do not want to give a definite answer one way or the other at the moment, because that is an issue for debate. It is not a policy of the Welsh Government at present to go in either direction or to come to a decision on that. Although we have made the point that, in principle, we would want to consider taking ownership of the bridges—

Q267 Chair: [Translation.] The old bridge is entirely within England.

Ieuan Wyn Jones: [Translation.] Therefore, you do not think that we should be considering that issue, do you?

Q268 Chair: It would be difficult, would it not? The Severn bridge is completely in England, so presumably there would not be much chance of getting ownership of that.

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Ieuan Wyn Jones: [Translation.] I would like to attempt to answer, as you have raised an interesting question. What I wanted to say was that we are considering ownership and, if we were to take ownership, then there is a choice, as you have said, between reducing the toll to whatever the nominal sum would be or retaining a slightly higher toll in order to invest in the transport infrastructure. We have not come to a decision on that either way, because it depends to a great extent on what the circumstances are at the time, and the evidence that emerges from our study. However, if we were to maintain the toll at the higher level, it would only be in order to improve the transport infrastructure and would not go into some general pot.

Chair: [Translation.] Are there any further questions?

Q269 Owen Smith: Do you have any views, Deputy First Minister, on the nature of the agreement that was struck with the concessionaire when the original Act was put in place? It has struck me during our evidence sessions as being quite an opaque structure. There are only four major shareholders and the level of the return that they can expect at the end is apparently unknowable—or, at least, unknown to us at this juncture. However, the sums are astronomical; this involves millions of pounds—some £6 million per month in terms of the revenue that the company receives and £70-odd million-worth of profit before it repays part of the debt. Do you think that there should be more clarity about the amount of money that the company is going to make and should that be fed into the public debate about who should pay for upgrading the payment structure?

Ieuan Wyn Jones: I must confess that I have not seen any of the evidence, so it would be wrong of me to comment on it; I would like to look at the evidence that has been given and then, perhaps, make a judgment on it. However, it is essential that we have clarity on the agreement. The concession between the concessionaire and the Department for Transport ought to be transparent as to the sums of money that are being raised and the way in which that money is being used. That is perfectly proper. It would be wrong of me to try to second-guess why the agreement was reached in the way that it was all those years ago. However, I would like to see the evidence that was given before making any further comment.

Q270 Owen Smith: However, I think that you said earlier that the company should be encouraged by the Secretary of State, somehow, to invest.

Ieuan Wyn Jones: Yes, I think it should. These days, people might expect to be able to pay in a more modern way. Perhaps we should look at the method employed on the M6 toll road, which seems to be a model that most people would recognise.

Q271 Geraint Davies: You will be aware that the system for congestion charging in London is much more modern and advanced than the system that we have on the Severn bridge. When we questioned Severn River Crossing about whether it would invest in such a system, it said, ‘Well, we’ve only got the concession until 2017, so we’re not going to’. Given that that is seven years away, will you undertake to talk to the Secretary of State for Transport to put pressure on the Government to ensure that this dialogue is progressed, so that we put pressure on the company to have a modern system for Wales rather than the cart-and-horse system that we are suffering at the moment?

Ieuan Wyn Jones: We put pressure on the Department for Transport to ensure that the card system was in place for the Ryder Cup, and we would be happy to make further representations along those lines.

Q272 Geraint Davies: There is the card system, but car recognition and so on, incorporating the Driver and Vehicle Licensing Agency, are also used in congestion charging. People coming from London to Wales move from a modern system to an antiquated system. There is surely an opportunity to apply pressure here, because the company says that it is waiting to hear from the department, and the department is not making any noises.

Ieuan Wyn Jones: We have certainly been making noises and will continue to do so.

Chair: It may be that we could look to the Assembly to bring these parties together.

Q273 Jonathan Edwards: [Translation.] Geraint has more or less asked this question, but what we are facing if the status quo remains until the end of the concession is that there will be no movement on new technology. Therefore, do we extend the franchise so that we can move forward on that or do we want to take ownership of the bridge earlier? Which would you prefer of those two options?

Ieuan Wyn Jones: [Translation.] I accept that there are arguments to be made on both sides about extending the current contract. However, my feeling is that we should move to see that contract concluded sooner rather than later, and then we can have a broader discussion on the use of the tolls once that period comes to an end, and, as you suggested, on the ownership of the assets.

Chair: Thank you for coming, Deputy First Minister, and for allowing us to come. We have very much enjoyed coming down to the Assembly, and we hope that we will be back here in the future.

Tuesday 9 November 2010

Members present:

David T.C. Davies (Chair)

Stuart Andrew
Guto Bebb
Alun Cairns
Geraint Davies

Jonathan Edwards
Karen Lumley
Jessica Morden
Owen Smith

Witnesses: **Rick Longford**, Economic Development Manager, Monmouthshire County Council, **John McGoldrick**, National Alliance Against Tolls, and **Councillor John Warman**, Campaign Against Tolls, gave evidence.

Q274 Chair: Good morning, gentlemen. Thank you very much indeed for coming up today. I know that some of us have met before but, for the record, I am David Davies, Chair of the Welsh Affairs Select Committee. I just wondered if you could also introduce yourselves and then we will start the session. There is no need to stand up. That is absolutely fine. In fact the microphone picks up better when you are not standing.

Councillor John Warman: Thanks very much, first of all, Mr Chairman, for inviting me along today to speak about the Severn tolls. May I first of all say that I am the organiser for CAST—the Campaign Against Severn Tolls.

What I would like to say today is basically the principle that, as an organisation, we are totally against the tolls on the Severn Bridges. We feel that, as an organisation, it spells out disaster for the business and economy in Wales. It also affects the south-west of England as well. It means that private motorists have to dig deeper into their pockets every year and the tolls, as far as we are concerned as an organisation, are nothing more than a tax on entering Wales.

Q275 Chair: Okay, thank you very much, Mr Warman. Don't worry, we will come back to you. We are going to do a question-and-answer session and we very much appreciate you coming up here today. It will be a fairly straightforward question-and-answer session but I will just go through and ask the others, if I may, to introduce themselves.

Rick Longford: I am Rick Longford and I am the Economic Development Manager for Monmouthshire County Council.

John McGoldrick: I am John McGoldrick and I am the Coordinator for the National Alliance Against Tolls.

Q276 Chair: Thank you all very much indeed for coming along. Can I start the questioning by asking about the Aberystwyth University report into tolling which suggested that for most SMEs the impact of the tolls was not substantial? How would you feel about that? Perhaps I could ask Mr Warman first.

Councillor John Warman: Well, I don't agree with that, Mr Chairman. I think that it is a huge burden on business and I have received a lot of communication and comments from the haulage industry in Wales to say how much of a burden it is on their business. I can also tell the Committee here today that I have had

a number of private conversations with people who have been involved with companies at boardroom level who wanted to set up business in Wales.

Q277 Chair: Could you name any of these companies, Mr Warman?

Councillor John Warman: I'm sorry, I'm not in a position to do that, Mr Chairman, because some of that was expressed to me in a confidential nature, but what they did say was the fact that when it was discussed at boardroom level with companies one of the issues that was brought up was the cost of how much it would be in tolls for setting up in Wales as an extra burden and therefore they decided not to set up in Wales but other areas. So that is an indication, an example, I feel, of how far it is hitting business and the economy in Wales.

Q278 Chair: Thank you, Mr Warman.

Rick Longford: Thank you, Chair. I have only just had a chance to see the report. I only had it sent to me yesterday so I've had a quick read through. It is interesting to note in the report that it relates that the ones that are having difficulties are those business sectors which are particularly related to transport, such as the haulage businesses and those involved with warehousing. Obviously, in Monmouthshire, warehousing is a particularly important industry on the M4 corridor in the areas of Chepstow and Magor. So I can see that in our location that would probably have a greater impact. However, as you move further away from the bridges then probably that impact goes away.

Q279 Chair: Mr Longford, am I right in thinking that tourism is actually one of the biggest employment industries in Monmouthshire?

Rick Longford: In one sector, yes. It employs round about 10 or 11% of the employees within the Monmouthshire economy. So it is a significant sector for us in terms of that.

Q280 Chair: Is it the view of the Council that the level of tolls is having an impact on that particular sector, if not on SMEs in general?

Rick Longford: There are some tourist businesses which are directly affected, particularly, I suppose, again those close to the Wye Valley. I have had a report from the tourist business in the Wye Valley about how they have seen the perception of that tourism business drop because of tolls. I think,

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particularly when we look at one-off events such as the Abergavenny Food Festival, we would see, potentially, tourists coming to the Abergavenny area from the Bristol area who may well be—what’s the word?—deterred from coming because the toll is then a significant element of the tourist sector.

Q281 Chair: I am going to bring in Geraint Davies now. I think I should just say, with absolute respect, that we have had a nice little preamble there but, because of the number of questions we’ve got, I’m going to ask everyone, including reminding myself, that both the questions and answers need to be fairly short and snappy if possible.

Rick Longford: Okay.

Q282 Geraint Davies: May I ask Mr Longford how reliable he thinks the Aberystwyth study is, in particular because it, and indeed the Welsh Assembly study, focused on the users of the bridge and how much they used it according to the toll as opposed to, for instance, a small builder who might be in Monmouth who would, if there was no toll, go over to Bristol and get some work putting up a roof but simply cannot afford to go back and forth and never tries for that?

Secondly, there is the category of business that says, “Okay, we’ll locate in Bristol because most of the market is on that side of the Severn”, and that’s it. It is a one-off decision. Occasionally, they will trip over to Wales, but if that toll had not been there they might have located in Wales. Do you think those sorts of examples are not really adequately picked up in the Aberystwyth study in terms of the negativity of the tolls on the Welsh economy?

Rick Longford: Yes, I think so. I think, first, that the sample size was relatively small in relation to what the study undertook and obviously it is covering a wide area. So, yes, I think the study needs to be expanded or needs to be developed, particularly in the area of actually questioning the users of the bridge as well rather than the businesses, because I think the business users of the bridge may well have a different viewpoint.

Q283 Geraint Davies: Can I ask Mr Warman and Mr McGoldrick whether they have any anecdotal evidence of builders or any other people based in Wales who don’t get business across the bridge because of the toll, or of businesses who have simply relocated?

Councillor John Warman: I feel that for businesses, especially at this time of an economic downturn as well, it is a huge burden and some businesses are going to move outside Wales. Also, the disincentive of that extra cost of the money mounting up in a year for the haulage costs must be a consideration for a lot of companies and there is evidence to say about that. Can I also say that I’ve also had a number of calls from people, holidaymakers, who told me to say that, if they were not paying the £5.50 or whatever vehicle is out there, that would be going into the pocket of a shopkeeper in Wales. I am just giving an example of the extra money that would be paid.

Q284 Chair: Mr McGoldrick?

John McGoldrick: Well, first of all, I should briefly say that I have not seen the FSB research. I’m not sure that it has been available to the public. My understanding is that it is just based on a telephone survey and it is not much more than that.

The other research in other parts of the country that has taken place has come to a different conclusion. It has come to the conclusion that tolls do have a significant effect on a lot of businesses. Both the businesses that are there and the businesses that are potentially there are discouraged from setting up in that area because of the toll.

As somebody said before, obviously there is also an effect on tourism, which is more difficult to assess because you can’t ring tourists up and say, “Are you going to go here or there because of tolls?”, although everybody is probably aware that with things like sat navs or if you go on to things like AA Route Finder you will see that one of the options is to avoid tolls, which implies that there is a significant number of people who will avoid tolls if they can.

Q285 Jessica Morden: This is just a quick question for Mr Longford. Did you have any evidence when Tesco decided to relocate from Chepstow over the bridge that the bridge tolls were part of that decision?

Rick Longford: There was no evidence that they used in any of their publications on why they moved, but I have to say it is curious that their excuse for moving was that they had not got a big enough premises in Newhouse and they could be provided on that. Neither Monmouthshire County Council, myself nor any of my colleagues were ever asked to try to find a larger site for Tesco on this side. So when one looks at that and suggests that potentially with 140 stores or so in the south and south-west served by an Avonmouth facility as opposed to 45 or so in the South Wales area, the economics of £16.70 of toll every day for 50 to 100 lorries is quite an argument.

Q286 Jonathan Edwards: Good morning. What evidence is there that tolls have diverted traffic away from the M4 on to less suitable roads, and there are particular problems maybe in Chepstow and Gloucester?

Rick Longford: There is no specific evidence as such. I do not think there is anything else. There is a lot of anecdotal evidence, or perceived evidence particularly, that because of the toll regime—that you only pay to get into Wales and not out—any traffic going out and doing the Gloucester run may well go out over the Severn crossings and then come back through Chepstow. It has been perceived that Hardwick Hill in Chepstow particularly is an area where it suffers from significant heavy traffic.

Q287 Jonathan Edwards: Do you accept that tolling regimes and road pricing schemes are a positive tool for raising revenues, especially for transport infrastructure, even if, after the concessionary period comes to an end, there are to be maintenance costs and operational costs to consider which would need a toll of some sort?

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Rick Longford: I am not in an area to be able to express a real view in relation to that. I have no evidence, but one would suspect that the actual bridges are vital to the Monmouthshire economy. Therefore any reduction in maintenance and therefore potential closure would be detrimental to the Monmouthshire economy.

Q288 Chair: Would both the other gentlemen agree with that—yes or no on that one? Would you accept that there has to be at least a toll in place to maintain the infrastructure?

John McGoldrick: No, definitely not. 99.99% of roads and river crossings are not tolled. To suggest that you need a toll to maintain it is ridiculous. The Government takes £1 billion a week from drivers and about one-seventh is put back into the roads. The suggestion that for, I don't know, say, the £20 million maybe it costs to maintain the Severn Bridges you need to put in a toll, stop the drivers and demand money from them otherwise the bridge is going to fall down is, in my view, nonsense.

Q289 Chair: Mr Warman?

Councillor John Warman: I know that there is a lot of traffic that misses the Severn to go the other way to miss the tolls. It can cause quite a problem, as I understand it, through some of the villages where they go through. I have not got any facts or figures, but I know definitely it does happen. From the nature of my work, I work in Wales quite often so I can see it.

Q290 Chair: What is it you do, Mr Warman?

Councillor John Warman: Sorry?

Q291 Chair: When you are not campaigning against tolls, what is it that you do?

Councillor John Warman: What do I do?

Chair: Yes.

Councillor John Warman: I am a researcher.

Chair: That is fine.

Q292 Owen Smith: Good morning, gentlemen. This is a very quick question to Mr Longford. Have you got any specific examples of investment decisions that have been explained to the Council as not being taken, companies not moving to Wales or relocating from Wales as a result of the bridge?

Rick Longford: I have no specific examples that I can give you of that because that decision—it is usually a multiplicity of activity which prevents people coming in, in decisions. So I have not got any specific ones in writing.

Q293 Owen Smith: Given that, and I think we can all see that there seems to be a lack of empiric evidence about this one way or the other, is the Council's view none the less that you think the bridge is a problem, in terms of the costs of the tolling, in terms of investment in the county, or not?

Rick Longford: Yes, I think it is our view that the tolls are a problem. The high value of the tolls as well is a problem. They are perceived, from a tourist and business point of view, to be a tax on entering Wales. It is perceived that, as you come over the bridge, you

then have to pay to enter Wales. You don't have to pay to enter England; you have to pay to enter Wales. So, again, there is a deterrent there.

Q294 Owen Smith: Would that perception be alleviated if the tolling was both ways?

Rick Longford: It could be, but again that may well cause a delay going out of Wales. You would have two sets of delays which also would be a potential problem. I think it is the high rate of the toll which is the particular problem. We have lived with tolls for a long time so we accept that the tolls are there, but it is the high rate that is the problem.

Q295 Chair: Mr Longford, just before I bring in Alun Cairns, I have heard this a lot—that you have to pay to get into Wales but not into England—but if you put the tolls on the other way, surely the same people, and I am one of them, would complain, “You have to pay to get into England but Wales is free”? Does it really make that much difference? Wouldn't there be complaints wherever you put the tolls?

Rick Longford: There could well be, but I think from a tourism perspective we are trying to attract tourists into Wales from the England area and from that point of view it is seen as a negative.

John McGoldrick: Can I just say that, generally speaking, with the tolls around Britain or where there have been tolls, one side of the crossing is generally regarded as the wrong side of the tracks. It does not really matter too much, as you said, which side the toll collection point is on. One side will be perceived as being poorer than the other side.

Q296 Alun Cairns: Can I pursue some of the questions that Mr Smith followed, Mr Longford, in terms of the question that asked whether businesses had purposely not located in Monmouthshire because of the tolls and whether they went the other side of the border or the other side of the Severn Bridge? I am familiar with one organisation that took that into account and chose to go to the Aztec Centre—the Aztec Business Park on the English side of the crossing. That is involved in distribution.

Now, we have also spoken about Tesco already. Are you aware of a disproportionate make-up of firms such as that involved in transport and haulage the other side of the Severn Bridge so that that would potentially indicate, well, it's quite obvious that X number of companies have gone there rather than coming to the Welsh side?

Rick Longford: Again, I am not aware of any specific companies who have turned around to us and said, “The tolls are the reason that we are not coming.”

Q297 Alun Cairns: No, but I'm asking about the companies that are established. Has any comparison been made or do you think there is merit in comparing the make-up of the companies, say, in the Aztec Centre and other business parks around there in comparison with those facilities where there are pretty near identical facilities on the Monmouthshire side of the border?

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Rick Longford: It would be useful to do that sort of work. I am not aware of any work that has been done in relation to that.

Q298 Chair: Just before I bring in Jessica Morden, Mr Longford, can I ask you a specific question? If there were no tolls on the Severn Bridge, wouldn't that have an impact on shops in Chepstow, because at the moment there is already a lot of competition with Cribbs Causeway? Is it not the case that we are actually keeping money in Wales by keeping a toll there as well as perhaps some of the disadvantages that we are both well aware of?

Rick Longford: I think it could be argued that that is the case, but I also think that the reciprocal is also the case where Chepstow is an attractive, historic market town which could well pull people from the Bristol area back to that area as well.

Q299 Jessica Morden: Do you think there is a joined-up plan for tolling across the UK?

John McGoldrick: Well, obviously not. There aren't any tolls in Northern Ireland and there haven't been for over 100 years. There are no tolls in Scotland. In most parts of England and Wales there aren't any tolls. I live on Merseyside. If I want to go into North Wales from where I live on the Wirral, I don't have to pay a toll to cross the Dee. If I then go across the Conwy on the bridge or under the tunnel, I don't have to pay a toll. Obviously, tolls are very haphazard, and if there is any rule at all it is basically what the authorities can get away with. In other words, in the areas where there is the least choice to avoid the toll you are more likely to get a toll.

Q300 Jessica Morden: Would anyone else like to comment?

Councillor John Warman: Yes. May I say that my organisation is against tolls anyway? I just want to remind you, Members, if you were to speak to your constituents, I think they'd all tell you, "Where's all the money going that we are paying in road tax anyway? It's not all being spent on the highways as it should be anyway. So why should we be paying tolls on top?"

Q301 Owen Smith: To the gentlemen who are anti-tolls, just to understand the rationale of your organisations, is it then that you are opposed to tolls full stop because you feel that other means of taxation such as road tax ought to be allowing for the maintenance of bridges and roads that are currently tolled?

John McGoldrick: Well, in brief, the mantra that we used to have, which would take a while to explain, is that basically we believe the tolls are unfair, unwanted and uneconomic. That they are unwanted has been demonstrated on numerous occasions. The most successful petition on the 10 Downing Street website was the petition against road pricing, which is basically road tolls, which got nearly 2 million signatures. The only two local polls that have taken place on the question in Edinburgh and Manchester massively defeated the idea of congestion charging. The western extension of the London Congestion

Charge Zone is due to be removed after Christmas because of the widespread opposition to that. Almost every independent survey which has taken place indicates that people don't like tolls.

They are also completely uneconomic. Tolled operations cost more to construct, cost more to operate—sorry, the Chair is interrupting me. I'm sorry for getting carried away.

Chair: And why not, but I have to try and get through all the questions.

Q302 Owen Smith: So there is never an example, you think, even in the straitened economic times we have right now, of the need for some sort of PFI deals that we had with this instance, or some other means of financing that results in tolls? You think it's always going to be unjustified?

John McGoldrick: Well, even if you were going to have a toll operation, PFI is the most expensive way of doing it. It probably doubles the cost for various reasons which I won't go into. If you are going to build a new road or a crossing, it should be judged on economic terms. Is this needed? Is it going to contribute to the bottom line of UK plc? If that is the case, then it should be built. If it is not the case, it shouldn't be built. But it should be financed out of road taxes and not out of a specific charge.

Q303 Chair: I think Mr Warman was trying to come in there on that as well. Is that right? Did I misinterpret that?

Councillor John Warman: I think the general principle of toll charging is not something that the public support from my feedback or the positive responses I have had since this organisation has started. From the feedback I get, the majority of people have said, "We are paying our road taxes", and this principle of going out trying to expand the toll charges and introducing more is just a non-starter as far as they are concerned. It is just a way of getting more money out of the hard-pressed motorist already.

Q304 Chair: Very briefly, how many members are in your organisation?

Councillor John Warman: I can't give you an actual figure, Mr Chairman, because I have never counted them, but I get a lot of support from members who contact me by the internet, by the web, and people who write to me. Can I just say that I can't give you a figure on everybody who is a member, but I get a lot of public support as well from people who know of me.

Q305 Chair: That's fine. I'm just trying to get a feel. Mr McGoldrick?

John McGoldrick: We don't have a formal membership. Basically, we are an alliance. Obviously, the individual groups have members, although most of those are fairly informal. One group nominally has a membership of 5,000.

Q306 Guto Bebb: Just on the question of tolling, it is quite clear that you are opposed to tolling, full stop, Mr McGoldrick.

John McGoldrick: Yes.

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Q307 Guto Bebb: You make the point obviously that the amount spent on roads is about £7 billion compared to about £52 billion raised because you used the figure of £1 billion a week, but in the UK we have never had actually had a system where taxes are dedicated for a particular purpose. Are you arguing that the £52 billion should be spent on roads?

John McGoldrick: No. It would be very nice if it was and the country might be better off. I think people in general would be better off if we had more bypasses round villages and so on. The point is that there is a vast profit. To overcharge by about seven times and then to demand a supplementary fee is, in our view, unfair. It is also completely uneconomic. To a certain extent the Committee so far has been asking about the effect on individual businesses, but one of the recent studies that was done by Colin Buchanan on the Humber Bridge looked at it from a completely different way. As I mentioned in our evidence, they looked at what are called agglomeration effects, which basically is the idea that the bigger your market is, the more efficient it is. If you have a river and you put a crossing across it, you increase the agglomeration effects. If you put a toll on it, you reduce those effects. In the case of the Humber Bridge, their assessment was that if the tolls were removed there would be an economic gain of £1 billion.

Chair: That is quite interesting. I understand the general point, but I just want to bring in Mr Davies very quickly.

Q308 Geraint Davies: On that point actually, would you accept that the bridge, in essence, is a gateway into the South Wales economy for inward investment and trade and as such the tolls are a squeeze on that gateway? We have had people coming here, in particular Ieuan Wyn Jones, who said there may be an argument that some of that toll should be used for new transport systems in Wales and therefore there should be a toll.

But wouldn't you accept that, if, for example, there was a proposal which put a toll on the M6 so that the people of Manchester could have a few more buses, there would be an outcry? Hold on, why should we have these arbitrary tolls and messing around with the system when, in essence, what we are stopping is trade for South Wales or whatever region, and the case for tolls isn't made at all?

John McGoldrick: Of course what you have just said virtually happened anyway. With the Manchester Congestion Charge proposal, the Outer Ring of it was the motorway going around Manchester where you would have had to pay a toll if you went along it or you crossed it. The vote there, in the Greater Manchester area, was 4 to 1 against for a variety of reasons. Most people believed that it would harm businesses inside the toll cones.

Q309 Geraint Davies: Mr Longford?

Rick Longford: I think the situation would be that, if you wanted to put a toll on the Severn Bridge and it had not existed before and then you decide to impose it, there would be a much greater outcry than there is against the tolls as they exist at the moment.

Q310 Karen Lumley: I see that you talked about the Humber Bridge. Do you think that the pricing on the Severn crossing and the Humber Bridge has been treated differently by the Government?

John McGoldrick: There are 20-odd toll crossings around the country and each one, to a certain extent, is open to a different regime. The Humber and the Severn are similar in so far as they are the joint highest tolls in the country, but they have a different mechanism for increasing the tolls on the Severn; it goes up automatically. On the Humber, they have to apply for Government permission.

The other main difference is that the Humber has had a massive subsidy from the Government over the years. They have had about £500 million in subsidies because the losses on the bridge were so great that something like £320 million of debt was written off. They have had interest subsidies which are worth about another £200 million; in other words, most of the debt they did not have to pay interest on. They still feel aggrieved that they have to pay the toll, but they have received, compared with the rest of the country, a massive subsidy of about £500 million.

Q311 Karen Lumley: Which is not available to the Severn crossing at all, is it, so actually we are losing out there?

John McGoldrick: It is not available to Severn and it is not available everywhere else. It is because the tolling obviously discourages use of the crossing. On the Humber Bridge it discouraged it, and other factors as well, to the extent that it was perpetually in the red. Obviously, beyond certain points, if you keep on putting the tolls up, which they could have done legally, then it is going to be a case of diminishing returns. If you double the toll, you might not even get the amount of toll income that you get at the moment.

Q312 Chair: Just before I bring in Alun Cairns to ask about the methods of toll payment, could I ask a quick question to Mr McGoldrick and Mr Warman—it is really a yes or no—and perhaps Mr Longford as well? Would you all accept that it is better to have the bridge with a toll than no bridge and no toll?

Rick Longford: I would answer yes.

Q313 Chair: Mr Warman?

Councillor John Warman: Mr Chairman, I think on the issue of the tolls, the charges and the card that is coming in, we are still totally opposed to the toll charge. The card that is coming in is going to be more of a convenience, but I've got to say that there's total confusion.

Q314 Chair: What do you say then—yes? Is that a no? It strikes me that you are probably so against the principle of any toll that you would probably rather not have had the bridge. What about you, Mr McGoldrick? What do you think?

John McGoldrick: If you look at the amount of traffic that goes across the Severn crossing, if they had removed the toll on the first crossing, then in theory, based on normal traffic flows, they should have been able to cope without building the second crossing.

Chair: Right.

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Q315 Alun Cairns: Can I talk about the toll payment methods? Do you think that the method of payment at the moment is sufficiently wide in terms of its convenience and in terms of speed, Mr Longford?

Rick Longford: No, I don't think it is. We have suffered under a long period of time now that you can only pay by cash or there is a TAG system as well, which has a detriment particularly. It was pointed out by Peter Cole in a recent study from Capital Region Tourism that this method of using cash is alien now to a lot of people who are now using cashless systems. The bridge seems to be a long way behind what it needs to be.

There has been a move to introduce cards for the Ryder Cup, but as soon as the Ryder Cup was finished that was then taken away again. I believe they have tried to reintroduce it. It was due to be reintroduced in the current few days, I believe, but I'm not sure whether it actually has. We need to move to something more sophisticated such as the Inner London Congestion Charge technique of recording people who are crossing the bridge so that people don't actually have to stop. That stopping creates an environmental problem at the tolls with vehicles then having to start up again. If they could go through a toll booth without actually stopping, then that would be a great incentive as well.

Q316 Alun Cairns: Thank you. You have covered most of the issues that I wanted to cover, but something I want to close down on is, do you think it is acceptable, is it confusing, and were you made aware of, the introduction, the withdrawal and the reintroduction of tolling? In the answer that you gave earlier, you said, "I'm not sure where we are now." Do you think it is acceptable as the authority that would have an impact in that area that you don't know where we are?

Rick Longford: I don't think it is acceptable that we don't know where we are. We have no communication really with Severn River Crossing plc at all. They don't give us any information in relation to tolling or tolling techniques.

Alun Cairns: I agree. Thank you.

Q317 Owen Smith: Do you know whether they have reintroduced it? They were meant to reintroduce it last Friday.

Rick Longford: I actually don't know, I'm afraid. I did come over the bridge on Sunday and I didn't see any method at that time, but perhaps I didn't go to the right toll booth.

Q318 Jonathan Edwards: In terms of the evidence we had from Severn River Crossing plc last week, they said that there would be no movement in terms of moving ahead with a more modern system for recording until the end of the concession period because it was not worth their while. It seemed that the decision therefore was, do we extend the franchise and perhaps move ahead with a more modern system for collecting the tolls, or do we move towards public ownership as soon as possible so that we can reduce the tolls? Given the two counter weighting choices

there, which would be the preference of the local authority?

Rick Longford: That's a difficult one. I'm surprised at that reaction that you had from Severn River Crossing plc—that they were not prepared to look at new technology, because if they would introduce that they could then reduce their operating costs. As their operating costs are taken away from the receipt to get this figure that they need, then surely there would be a big advantage to doing that. I am just totally surprised at their reaction.

Q319 Jonathan Edwards: I think their argument was that the capital costs of moving the toll booths, etc. would be prohibitive—

Rick Longford: I think they are making a significant profit out of the bridge as it is and I wouldn't have thought that that was a major problem.

Q320 Owen Smith: On that question about profits, one of the things we are wrestling with in the Committee is the nature of the deals being struck and the nature of the financial arrangements. They are actually quite opaque. They tell us that it is impossible to determine how much profit they are making right now and how much profit they will make at the end of the scheme. You are implying that your impression, looking at it, is that it is a profitable business and therefore they should be investing?

Rick Longford: Yes, I have looked at the report that was put to the National Assembly for Wales in June 2010. At the back of that, there is the annual tolling income. Looking at those sorts of figures, you wonder why. They are taking £77 million a year. Their cost of sales, which is their operation, is £10 million. The cost of operations/repairs—this is for 2008, by the way—was only £4.24 million. I don't think they are spending an awful lot of that £77 million.

Q321 Owen Smith: What about when we revert to public ownership of the bridge? Do you think the tolling regime should remain or do you think it should be reduced, and if it should be reduced is there an optimal bearable toll level or should it be reduced to the absolute minimum?

Rick Longford: That's a difficult question, I suppose, for me. I think that the people of Monmouthshire and those that use the bridge would obviously like to see no tolls for the reasons that have been discussed in this meeting now. I am also concerned, as I said earlier, that the bridges are vital to the Monmouthshire economy, that, if, for instance, there were no tolls and therefore no income, does that mean that the first crossing, which is obviously having significant costs of keeping it open, would be closed, because you have another bridge so you don't need that one? So there is a question there. I think that we do need to see a reduction in those tolls. The tolling regime has been 10p on every year irrespective really of the RPI, and I think that's another area—

Q322 Chair: That is an important point that you have just raised. Have MCC got any concerns that the first bridge might close at some point because of maintenance costs?

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Rick Longford: We have got no evidence to put it that way, but with the reports recently that the main cables for the first crossing are in need of serious repair or replacement that obviously is a huge cost and there could be decisions being made about that.

Chair: We have been given the impression that that work is being done, but that is a good point. Thank you for that.

Q323 Karen Lumley: During the Ryder Cup when these machines were in use, was there any anecdotal evidence that they took longer to use or how long they were taking to use?

Rick Longford: We have not had any reports back on that so I am not aware of any information relating to that.

Q324 Guto Bebb: I'm sorry, Mr Longford, but I'm coming back to you again, I'm afraid. In terms of the comments that you made about the profitability of the bridge, obviously that is refuted by the Severn River Crossing companies, who argue that when you look at their accounts you obviously have to take into account all the financing costs. So, in effect, your argument is almost an argument against PFI projects per se, because if you strip out of their financial records the issue of financing costs then obviously they are quite profitable. But if you look at the real world scenario where they do have to pay back the money they borrowed in order to build the bridge in the first instance, then obviously they don't make those profits that you claim. Is it your assertion therefore that PFI is a bad thing?

Rick Longford: I wouldn't be able to comment on that, I'm afraid. I can only go on the figures that I have from that report which suggests to me that that is the situation, that they are making a profit. I'm sure they are making a profit as a company because they are a private company. They are there to make a profit.

Q325 Guto Bebb: Because their year-on-year accounts have shown losses on occasion as well.

Rick Longford: I'm not aware of those and not had that information.

Q326 Guto Bebb: I just wanted to clarify that. Maybe you have a comment on PFI in general because you did state in passing that you had concerns about PFI as a concept.

John McGoldrick: It would take a long time to go into that. Just touching on the profits the company makes, the problem that the company have is that they must look over the life of the concession and basically whether they make a profit or not under the concession depends on how quickly the traffic flows build up. The sooner they reach this £1 billion at 1989 prices, the more likely they are to make a profit. If you look at their last published accounts in 2009, they made a profit before tax of £14 million. That was not necessarily typical, but on that they paid £10 million to the Government. So indirectly the toll payers paid £10 million in tax to the Government. Also, as the Committee will be aware, they are paying VAT to the Government, which the Government is keeping, which I estimate was probably about £15 million. So,

in 2009, the Government took £25 million out of the money that would otherwise have been available to pay off the debt.

Q327 Geraint Davies: On that point really, do you feel that the construction of the concession is such that the incentive of the Severn River Crossing company is simply now to take the money and not invest? That was said to us—that they have got no incentive to invest in modernisation before 2017. All they are really trying to do is to take what money they can, basically pay off the debt and make some money within the time constraint and the revenue constraint of the concession. Do you think there is an inherent problem there for a consumer?

Chair: Mr Warman?

Councillor John Warman: Yes, I just wanted to say about PFI, actually, that I think it is just a quick fix myself. It is an easy solution. You get it today; you have to pay for it later on. It comes back, and it is becoming a huge problem. I think the public outside would have said about the Severn Bridge, "Why wasn't that paid for out of taxes anyway when the money should have been put there for it." The money was there, but it was just an easy fix, and I think that problem of PFI is going to come back to haunt us.

Q328 Geraint Davies: Has Mr McGoldrick got an answer to my question because he started, and Mr Longford?

John McGoldrick: Sorry, could you just quickly repeat the question?

Q329 Geraint Davies: Do you believe that the structure of the concession basically means that no money is reinvested in modernisation and the money is just taken, as you have already said, by the Government?

John McGoldrick: Obviously, it depends on the points. The closer you get to the end of the maximum period of the concession, which is 30 years, the less incentive there is to invest, although they are obviously obliged to keep the bridge in good repair. The main incentive for the company is just somehow or other to maximise traffic as best they can and to reach this £1 billion target as soon as they can rather than anything else.

Q330 Geraint Davies: But they haven't invested in credit cards or new systems, like the Congestion Charge systems we have here. They are just saying that it is not worth their while and they are just taking the money they can.

John McGoldrick: Congestion charge systems using cameras, etc. are very expensive. With the London Congestion Charge, the administration cost is about £4.50 per vehicle per day.

Chair: That is a very interesting point. I am ever so sorry, but we have the Minister waiting outside and we have to start at 11.15 promptly. So I would like to thank you all very much indeed for coming.

John McGoldrick: Thank you.

Chair: We shall let you have a copy of the report when it is done.

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Examination of Witnesses

Witnesses: **Mike Penning MP**, Parliamentary Under-Secretary of State for Transport, **Jeremy Rolstone**, Head of Road Demand Management, Department for Transport, and **Graham Bowskill**, Divisional Director South West, Highways Agency, gave evidence.

Q331 Chair: Good morning and thank you very much indeed for coming along today. Some of us know each other extremely well but nevertheless, for the record, I am David Davies, Chairman of the Welsh Affairs Select Committee. Perhaps, gentlemen, you could introduce yourselves.

Mike Penning: I will introduce myself. I am the Minister for Roads and Shipping, and these are my colleagues from the Department.

Jeremy Rolstone: I am Jeremy Rolstone from the Road Demand Management Division.

Graham Bowskill: I am Graham Bowskill from the Highways Agency.

Chair: Thank you very much for coming along today and I would like to begin with Owen Smith.

Q332 Owen Smith: Thanks for coming to see us. I would like to start with the terms of the deal that was struck on the building of the second Severn Crossing. I think we understand now, after our research, the essence of the deal: the four shareholders bear all the costs of building and maintaining the bridge and the bridge returns to public ownership after they have, in return if you like, netted the revenues to the tune of about £1 billion. Do you feel, looking back now, that the public got a good deal when that PFI deal was struck all those years ago?

Mike Penning: Hindsight is a wonderful thing, but I don't think there is any doubt that unless there had been private money, private investment, the second bridge would not have been built. If we look back at the net benefits of the bridge being constructed and the running of the original bridge being taken over, I think, at the end of the day, with the information that was available then—in hindsight we can always look at things differently—yes, I do. I think it is easy for us now to look back at the decisions that were made then which enabled the bridge to be constructed and then the infrastructure to be looked after during the terms of the agreement. So, yes, I do.

Q333 Owen Smith: Can you give us any insight into the sort of revenues and the profits that the company has made thus far and might make at the end of this, because we have been slightly surprised by the company telling us that they can't really tell us right now how much money they will make at the end of it all?

Mike Penning: I don't have that information either. I looked at the evidence that was given to this Committee. It is not for me to decide how much profit a company should make, particularly within the PFI. All I can say to you is that we looked very, very carefully at the tolls, for instance. The increase in tolls—and I am going to announce what the increases are in a moment to the Committee because I thought this was the right place to have an announcement today—is set in statute. They can only charge RPI increases. Of course the end of the contract is based

around when they recoup their costs. We keep a very close eye on that, but, as you can imagine, it is not for me to decide and run the company. It is for them to run it and the four shareholders. It will fall into our hands as a national piece of infrastructure, which it is today, and ownership into the public's hands.

Chair: Mr. Smith, are you happy with that?

Owen Smith: Right.

Q334 Chair: Thank you very much. Could you tell me, Minister, what is the rationale that estuaries, and I think only estuaries generally, should be tolled?

Mike Penning: I think it is historic. If we look at how far back estuary tolling has been and can be done—1945 is as far as we can go back—the rationale is for that sort of enhanced communication. I think that is where the rationale comes from, and the huge cost of estuarial communications. That is why the historic tolling has taken place. However, it is, of course, not the case now that it is the only form of tolling that takes place. The M6 toll is the most obvious one. We are very much looking at new infrastructure—and I suggest new—which could be tolled.

Q335 Geraint Davies: Are you concerned that the incentives of the Severn River Crossing company are such that their real incentive is to get things sorted out by 2017, not to extend it perhaps and have a lower toll to allow more economic activity across the bridge? Indeed, in their hearing, they gave the suggestion that there was no incentive for them to invest heavily in modernisation. As you know, it is an antiquated system to how you pay, certainly compared to the Congestion Charge system. It is old-fashioned. Are you concerned now looking back—I know this wasn't your responsibility—that the structure is such that the intention of the modernisation or relaxation of the tolls over a longer period in the interests of the economy are the right ones for the Welsh and indeed the English economy?

Mike Penning: I think it is the national economy that I am particularly interested in, as you can imagine.

Geraint Davies: Yes, of course.

Mike Penning: Especially as one of the bridges actually goes from England to England rather than from England to Wales.

Geraint Davies: But just in the general trade—

Mike Penning: But I understand where you are coming from.

Geraint Davies: The barrier to trade—

Mike Penning: The contract is very restricted. The powers that the Secretary of State and I have are actually quite constrained. For instance, if I wanted to suspend charging at night or do something similar to what I am doing at Dartford, where I suspend the charge when tailbacks become unacceptably long—I think it is fundamentally wrong that people are charged for a service and then have to queue up in some kind of Soviet system for hours to do so. That

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is wrong. Under the contract, if I asked the Secretary of State to impose those sorts of things—and we will come on to free flow, I am sure, in a moment, which is something that I passionately believe should be on the bridge, which is quite key—the taxpayer, under the contract, would have to then compensate the company. They do not want to go, as you heard, beyond 2017.

If we actually incur costs to them, that liability has to be, under the agreements, the liability of the taxpayer unless they agree that they want to extend. For instance, there was a short extension done recently when the VAT increase goes up to 20%. That meant either we increased the tolls because of that, and RPI, or extended the period on agreement with them by five weeks. They have to agree. If they don't agree, there is nothing I can do.

Q336 Geraint Davies: Because we have heard that after 2017, in theory, we could reduce the toll to something like £1 a car because in terms of revenue it is about £72 million and the costs of running remains at £12 million.

Mike Penning: Yes.

Q337 Geraint Davies: So presumably someone could work something out and extend the period and have a lower average toll than is currently prescribed in order to have more economic activity during difficult times?

Mike Penning: Post 2017 that could be, because then obviously all the concession is finished. They clearly have indicated to you and indicated to us that they are not interested in running the concession past 2017.

Geraint Davies: I see.

Mike Penning: Now, that is a commercial decision for them to have made.

Q338 Geraint Davies: They didn't make that clear to us.

Mike Penning: Well, it is perfectly clear to me that they do not want to. I think I am right in saying that.

Q339 Chair: Have you had these discussions then or has somebody had them?

Mike Penning: My officials have certainly had discussions with them.

Chair: That is news to me.

Mike Penning: There are several discussions that take place. Let me touch on what I said a moment ago. By 2012, at the Dartford River crossing, we would have invested some £10 million and there will be free-flow charging both ways. So there will be no barriers and no toll booths, which actually is what causes the most pollution and congestion and upsets so many people. Interestingly enough, with the increases of 50p next year and 50p the following year, each way at Dartford, it will be £5 at Dartford, which is not far off the fee for a car, for instance, going across the bridge.

Q340 Chair: What you have said actually does come as news to me and I think to other members as well. Just to be clear, you are saying that your officials have had discussions with SRC and that SRC have given you an indication that they no longer wish to have the

concession when it runs out in 2017 or thereabouts. Presumably, therefore, if those two facts are correct, perhaps you could just confirm for us, and I will then—

Mike Penning: Yes, my officials have been discussing with them.

Graham Bowskill: The discussions we have had with SRC relate to negotiations for settling what we might otherwise call claims and the cost of credit cards, for example, and they can be addressed in many different ways. One would be extending the concession beyond 2017. Others would be different means of addressing it within that timescale. Their preference is that they don't extend because they take on an extended period of risk, in their view, because they would be responsible for the existing structures.

Q341 Chair: That I can understand in relation to the credit cards. There is a wider question of what happens when the concession runs out. It is something—

Graham Bowskill: Officials have not had discussions with them about the arrangements after the end of the concession and how the Department and Ministers would want to deal with the Severn crossings once they return to our ownership.

Q342 Chair: Forgive me for asking you then, but surely this is something one would expect that you might be thinking about because it is not that far away? Seven years will go by fairly quickly, and if this is a fairly major question surely there must be some idea within the Department as to what is going to happen after the concession runs out?

Mike Penning: As you are aware, I have only taken over the portfolio in the last couple of weeks. One of the reasons that it was handed to me from the local government portfolio to the national infrastructure portfolio is because it is a major and important piece of infrastructure to the national economy as a whole, as well as, I fully understand, to the Welsh economy. Yes, those discussions will start. I stress that they had not formally started, but every indication is that they have not, as I understand it, shown an interest in extending beyond 2017.

If you look at the way that the negotiations have been done to do with extra cost and extra burdens, they have tended to be within the 2017 period rather than extending beyond. I think, to be fair to them, some of that is to do with the way that their finances are structured. It is quite complicated for them.

Q343 Owen Smith: Are you content though, Minister, with the attitude that the company are showing? It has been very clearly shown to us that effectively they do not want to invest in free-flow technology or any other innovation in respect of the tolling system and that is principally why they are not interested, I presume, in extending the franchise in order to meet some of those costs.

Mike Penning: I am concerned that there is a conflict of interest here between the end game for them being 2017—and there are some costs that the Government have which would actually have to be reimbursed

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after that through tolling anyhow—and actual investment in free-flow tolling.

The costs that I mentioned earlier on to do with Dartford at around £10 million is because we had to reconfigure the motorway as it comes off of the bridge rather than the cost of the free flow. The technology is there. We use it in London every day. We can learn by the early mistakes of the congestion charging, but there is no reason on earth that, in the 21st century, we are stopping people and asking them for cash or to use their credit card when they should be able to pre-pay and post-pay.

Q344 Owen Smith: So do you agree with me then that the company looks to be making a handsome profit and therefore should be obligated to invest in further technology?

Mike Penning: No, no.

Q345 Owen Smith: Do you think therefore that you should take powers in order to change that?

Mike Penning: The contract is quite specific as to what they have to do. If I wish to change the contract, I will have to renegotiate that position with them, which will have a cost implication on them. They were set up as a single-purpose company. They were set up for this project. They don't have any other projects anywhere in the country. This is a single-purpose company.

Yes, I agree with you. I would love to be where we were when they started it, because some of the restrictions that are there I perhaps would not have agreed to. But they were agreed to. We have a contract of obligation, and if I start changing the nature of the contract that would mean, without any shadow of a doubt, that there would be costs up front. Now, I am going to have those negotiations because I think that it is absolutely unacceptable that, in the 21st century, we have barriers to try and take money off of people when we need the money, but there are much better ways of doing it and we can learn from around the world how it has been done.

Q346 Jonathan Edwards: In terms of the free-flow technology, we pressed the company on this issue and they have got no intention at all of changing the tolling structure or how tolls are collected until after the end of the concessionary period. So what can you actually do to force them towards this?

Mike Penning: If they are absolutely rigid, it is very, very difficult. As I say, they have a contract. At the same time, we have a service principle that we have to make sure. Cardiff Stadium is fantastic, but when I used to go down there for the rugby and the football and sit there at the toll to pay it was one of the most frustrating things I have ever imagined. People do that on a regular basis, on a daily basis. The queuing and the congestion do affect the economy. There is no argument about that.

But I think I am right in saying that they are in a very powerful position should they wish to ignore. I can force it on them, I understand—I think the Secretary of State could actually force it upon them, but then there will be the up front costs which may well have to be incurred by the Highways Agency and my

Department. That may well be worthwhile, but when I get into negotiations with them—I have only had the portfolio for about four weeks now—that is something that we can do. For instance, at Dartford, there is provision within the spending agreement that I have £10 million for that project. At the same time, of course, we have got the 50p up this year and 50p up next year, 2011 and 2012, to also help fund those works.

Graham Bowskill: What I would say about the Severn River Crossing company is that they have been co-operative in introducing changes. The caveat that they always place on it is that they would look within the concession to receive compensation. So, if their revenues dropped or if they were delayed in any way, they would be looking to negotiate a package with the Highways Agency to compensate them for that. They, with credit cards as an example, have been willing to make changes. I think the message that they gave the Committee was that they would not, of their own volition, make changes, but that does not rule out the opportunity to talk to them, to negotiate and, as the Minister said, recognise that there would have to be some payment to cover any loss to the company.

Q347 Stuart Andrew: Minister, in terms of the competitiveness of the Welsh economy, I wondered if you have considered what impact these tolls might have on that competitiveness and also how much you think it might impact on the company's decision on whether to invest on either side of the river?

Mike Penning: I have looked at this because I know that this has been raised on several occasions. I can't find any evidence that investment in Wales has been, or is being, affected by the tolling. Actually, the Welsh Assembly have indicated that the growth that they see is very, very good at the moment. I am more than willing to look at evidence should it be brought before me, but there doesn't seem to be any evidence that it is affecting the Welsh economy.

Q348 Stuart Andrew: So I take it that you welcome the Welsh Assembly Government's announcement of an economic impact study. What will your Department do to feed into that and be a part of it?

Mike Penning: By all means and we will participate with the Welsh Assembly as much as possible. The only thing I could say is that the Welsh Assembly is saying that Wales is increasingly attracting companies from all over the world. That has been published only in the last couple of days on their own website, which is great news—absolutely great news. I say this to the Committee strongly, but what does stifle it is if people are stuck in queues to pay a toll. We can learn from what we are doing at Dartford, but I think there is no argument that we need to have free flow running through the Severn.

Now, how we finance that is going to be really difficult because it will either be, as we alluded to a moment ago, an extension to 2017 or the taxpayer has to fund that. The principle has always been on estuary crossings that the taxpayer should not bear the brunt. That is why we had the tolls. That is something I am quite passionate about because it is affecting people's

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perception and it always will if you have to queue to pay a toll.

Chair: We certainly look forward to that.

Q349 Karen Lumley: Under the current legislation, has the Secretary of State any power at all to set the annual tolls below the Retail Prices Index?

Mike Penning: No. The agreement is RPI, and, for instance, I can use this opportunity to tell the Committee what the increases will be for next year. There are three categories of charge. The increase for cars will go up by 20p, the increase for vans will go up by 60p and the HGVs will go up by 80p. That is in line with the contractual agreement under the Severn Bridges Act, which is RPI to the nearest 10p increase. If you look at those increases and you then compare them to, for instance, my Dartford River crossing charges, which are the two I have control on, then you can see that it is actually slightly less—well, it is substantially less for cars—than what is happening both ways, I stress, at Dartford.

Chair: Just before I bring in Jonathan Edwards, I am sure we would swap our toll for the Dartford River one.

Q350 Jonathan Edwards: On what basis does the Department of Transport predict the costs and revenue associated with the crossings? Do you accept that an over-generous formula was created by the Department considering we are going to be finishing in 2017 rather than 2022?

Mike Penning: Again, we are where we are. The agreement, when it was all set up some time ago, is where we are and 2017 is where we are. Just to go back to the previous question, the Secretary of State does have the powers—don't get me wrong—but then we have to compensate them from the taxpayers' purse for the loss. With the priorities and where we are at the moment, I would struggle to be able to say that I can use taxpayers' money to subsidise at that time. Yes, we do, but we would have to pay them the difference for the loss of income.

Q351 Jonathan Edwards: We have been told by the company that they currently owe the Government a £200 million debt on the crossings. Would you be willing to delay repayment of the debt to enable a lowering of the tolls, particularly in the short term, considering the economic climate?

Mike Penning: Bear with me, as my officials will probably tell me I am wrong, but, as I understand it, the Secretary of State can ask for the tolls to be lowered. The compensation has to be directly paid to them. I don't think it can be offset against the loans. Is that correct?

Graham Bowskill: Yes, that is correct.

Mike Penning: Thank goodness for that.

Graham Bowskill: The Treasury are expecting the repayment of the subordinated loan as defined in the original concession agreement.

Mike Penning: The concession agreement is very tight. Let's not beat around the bush about that. It is very, very tight. If we touch it or move it, the taxpayer pays. That is basically where we are. We either get an

extension—but if they do not want to do that then the taxpayer pays and that is the difficult part.

Q352 Jessica Morden: At the moment, the Severn tolls are the most expensive in the UK for all but the largest vehicles, and I bear in mind what you said about the Dartford crossing. Do you understand the real sense of unfairness in Wales that a lot of work is done on the Dartford crossing? There are toll fees on the Humber crossing, and yet with the Severn Bridges there seems to be nothing that we can do. It seems to be treated differently.

Mike Penning: I think the comparison with Dartford is understandable. The comparison with the Humber is not understandable, I am afraid, because it is owned by the local authority down there under a completely different piece of legislation. The link with Dartford, if you recall, is that Dartford was in a very similar position where there was a concession for the debt. The debt ran out and the tolls are still there. Believe me, I get a lot of discussion with the Kent and Essex MPs and their constituents as to why there are still tolls there. I think if you look at the increases that will move to 2012 for Dartford, which will take cars to £5—£2.50 each way—they will not be that dissimilar to where they are. However, I understand the concerns. The concession agreement that was entered into means that it is RPI increases to the nearest 10p and that is basically where we are.

Now, when RPI is low, the increases are relatively low. If it moves on then the increases are different. I understand the concerns, having inherited a contract which was not placed in the agreement by myself or any of the other Ministers in the Department. It is frustrating. The biggest thing that I am frustrated about is, is it fit for purpose? In other words, whether we like it or not, tolls across estuarial crossings are there. This particular contract means that it is very difficult to get the technology and investment that, for instance, I am putting into Dartford because we own Dartford in comparison to the concessionary agreements we have with Severn.

Q353 Jessica Morden: Just to clarify one point on the toll rises from January next year, what about the VAT increase? Have you absorbed that?

Mike Penning: Yes. What happened with the VAT increase is that under an agreement with the concessionaire, I increased—I think it was five weeks—the concession agreement further into 2017 so there wouldn't be any increases because of the VAT.

Q354 Jessica Morden: Just finally, there was a big campaign this year for a freeze in the tolls because people's hours are reduced and there are wage freezes, etc. Are you saying there is nothing that you could do in terms of legislation which could, for instance, bring in more flexible concessionary fares for people who live locally or off-peak fares? There is no way of altering that?

Mike Penning: If we alter the agreement of the RPI increases, which the Secretary of State does have the power to do, I would have to pay that from the Exchequer's purse.

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Q355 Jessica Morden: But you were able to do that with credit cards, or the previous Government was. Therefore, did they take on the card handling charge, for example?

Mike Penning: I will let my officials explain to you what has happened with the credit cards because that has been an interesting experience over the last few days and weeks as well. One of the things that fascinates me when this country enters into agreements and bids for things like the Ryder Cup, is what has to be agreed to in the small print. So, for instance, the credit card situation had to be agreed to there, and the bus lane on the M4, for instance, has to stay because of the Olympics and things like that.

We will come to the costs in a second and I will ask my officials to explain that. Frankly, for the Ryder Cup, they put in a piece of technology which was not actually fit for long-term purpose. In other words, it was actually a PIN card similar to what you get in a shop. You have the cardholder and you have to put your PIN in. The new technology that is being installed as we speak means that they want you to use a PIN so it will be much faster. I still think it is antiquated. I still think that free flow is the answer. But, actually, we have had to absorb the costs, I understand.

Graham Bowskill: Yes. We have found it a very long and tortuous route to introduce credit cards and I have every sympathy with people on both sides of the crossing. The reason it is taking so long is because credit cards involve a new form of income coming into the SRC procedures. There is a cost of actually processing credit cards, which means that for every £1 coming in in hard cash they would get less than £1 if it were paid on a credit card. Therefore, we have been negotiating with SRC to cover those costs. That is in a negotiation coupled with other issues that need to be settled under the concession.

With regard to the temporary system for the Ryder Cup, we were very proud of being able to get it in for the Ryder Cup for obvious reasons, but SRC had to withdraw it very soon afterwards as it was administratively almost impossible for them to handle because of the manual processing of the card payments. They have produced a system now which is more effective, albeit temporary, and, as the Minister said, we are working with them to negotiate to have a permanent system.

Chair: I am pleased to say that we phoned SRC and it appears to be up and running today. I would like to say, "The Welsh Affairs Committee is wot done it." We will perhaps get a few further questions on this.

Q356 Guto Bebb: Just on the issue of credit cards then, to clarify, in order to get the credit cards in place for the Ryder Cup your Department basically had to come to an agreement with Severn crossing to compensate them for the loss of revenue in effect?

Mike Penning: Yes.

Graham Bowskill: We underwrote.

Mike Penning: Yes. This is where this contract was perhaps—if I was sitting in the chair and in hindsight, we and our lawyers would have been more careful—very, very tight. If we ask them to use sensible new technology, in other words, a credit card, for the loss

of income they get because the credit card companies apply a levy on them, we have to compensate that and the cost of bringing it in is down to us as well.

Q357 Guto Bebb: But, contractually, the company was actually acting within their rights?

Mike Penning: Yes, absolutely.

Q358 Guto Bebb: And in terms of the new system which has come into place today then, did I hear you correctly when you stated that that is not dependent upon the PIN system?

Graham Bowskill: That is correct.

Q359 Guto Bebb: That is correct? Excellent.

Mike Penning: It is really interesting as to where the banks are on this because they desperately want PIN use wherever they can, but actually it is such a hindrance if you are taking small amounts of money and you want to move through fast. The truth of the matter is that, whatever happens, cash at the moment is by far the better method of use, but credit cards will be quicker. That is not a problem.

Jeremy Rolstone: The credit card system which is in place at the moment does need PINs to be entered. In the New Year, we will be moving to a system where you can just insert your card and take it out. Then you don't need a PIN.

Q360 Guto Bebb: Just a final point then. In terms of compensation, have you extended the period again in order to allow for the costs or have you actually provided for the costs?

Mike Penning: This is the negotiation that is still taking place. The indication is that they do not want to extend but, as I say, we are still in negotiation. I will say—there is no point in beating around the bush—that they are in the driving seat because of the way the contract is drafted.

Chair: A very quick question from Alun Cairns.

Q361 Alun Cairns: Thank you, Chair. Minister, is it the case that the company have the Government over a barrel really because you cannot make any changes without the taxpayer incurring the cost? Secondly, there would have been reduced cash-handling charges as a result of moving to credit cards. Was that incorporated into the negotiations? I hope that their savings in terms of reduced cash-handling charges would not have been of benefit to the company, and that at least taxpayers' funding would be reduced.

Mike Penning: On the latter point, the latter part of the negotiations are obviously taking place now. Cash—especially coin—is very expensive to bank, whereas the credit card charges in theory should not be. We are talking about a tiny amount in proportion, though, to the income from the tolls. I would not use "over a barrel" because those of you who know me know that I am fairly robust with these things and we will negotiate very robustly on behalf of the taxpayer, I can assure you.

Q362 Alun Cairns: Finally then, I got a sense earlier that the Committee, as well as the official from Monmouthshire County Council, were pretty irritated

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about the communication that came from the SRC in terms of not advising when the credit cards were available or when they were not available, and about the confusion, which meant that an official had to ring up to find out what the latest position was now. Do you think that is acceptable? What can you do to at least help communicate the message whether credit cards are acceptable or not, and to deal with the confusion that it brings to members of the public?

Mike Penning: I think it is unacceptable for confusion to take place when the public are being asked to pay a fee. I think they managed just about to get the technology in place for the Ryder Cup, but only just about.

Q363 Alun Cairns: But I mean since then?

Mike Penning: I appreciate that. The movement on since then is that we are in an interim period with PIN at the moment with no PIN as soon as we can after Christmas. But I am very, very conscious that communicating with the public who are using the bridge is a matter for the Highways Agency to get right with the management operating the tolls. That is something we are working very closely on.

Q364 Stuart Andrew: I think you have just answered the question on one point, but, talking about the latest technology that they will be using in the new year, I am presuming that is also going to be the contactless stuff, which is obviously going to be much quicker than having to insert into a machine?

Mike Penning: I think you will find it is not the contact one. It is not something that is similar to an Oyster. The technology is not there for credit cards to move into that position yet, especially in the environment they are going into. It will not be dissimilar to what you find if you go into an NCP car park these days—I am sorry to advertise NCP. You will have to insert, it will read and you take it out.

Karen Lumley: It is not like the M42.

Q365 Stuart Andrew: But you do with credit cards now. Certainly Barclays are introducing it and you just wave it past a window. You don't have to—

Mike Penning: But we have to cater for the whole of the public; in other words, for the facilities that they all have. If the credit card companies all moved to that technology then we would stand a chance. I am still going to places and being asked to sign when France and Spain brought PIN numbers in 25 years ago, if not longer ago, and now they are telling us, "The PIN system is not safe" and we move back to another method. The credit card companies move very fast and very slow sometimes, but I understand where you are coming from.

Q366 Geraint Davies: On that final point, when do you think we will be able to put their tolling booths into St Fagans so that people can visit it? It is an ancient monument. That was not a serious question. My serious question is that you mentioned earlier that, as far as you were aware, there was no evidence of any negative economic impact on either inward investment or trade across the Severn. I suggest to you that if you imagine yourself as a builder in

Monmouth, a jobbing builder putting on roofs, it would not be in your interests to even go across the bridge to try and get work in Bristol because you would know it would not work, so there would be a hidden impact that has not been measured in that sense.

Secondly, given that the market size on the English side is bigger, there will be a number of businesses who may have located there in the knowledge that it is better to be on that side. I know that Tesco has moved to the other side because of logistics costs. I think it is a much bigger market on the other side and they don't have to incur this toll.

Would you accept that some of these so-called economic studies have simply measured the elasticity of demand of existing users of that and have ignored small businesses who have just chosen not to even bother? The big businesses have already made the strategic locational decisions. So, therefore, would you perhaps look again at the economic evidence more deeply?

Mike Penning: Yes.

Q367 Geraint Davies: Because I fear that this bridge is acting as a squeeze as a gateway to inward investment in Wales and trade between England and Wales.

Mike Penning: That is why we will work with the Welsh Assembly very closely on the new assessment.

Chair: We welcome that.

Q368 Geraint Davies: On the Welsh Assembly, you said that they seem to be saying that everything is fine, but would you accept that my view of that is that they are simply saying, "Come and invest in Wales" and they are being positive as opposed to saying that there is not a negative impact of the toll?

Mike Penning: No, I didn't say everything was fine. The country is coming out of a very, very difficult situation and the figures are good, but we would like them better. There is one thing that is significant. If you talk to businesses like I do, the one thing they want is certainty that they can cross from A to B, even if they are going to pay, in a feasibly sensible time and not be held up with congestion. That is affecting certainly the Dartford River crossing and I know at times it affects the Severn.

Q369 Owen Smith: To clarify, are you saying that you are going to reopen negotiations with the company before 2017 in order to try and see this free-flow technology produced?

Mike Penning: Yes.

Q370 Owen Smith: You are. Are you also saying that we should think about the Dartford analogy where extra money has been put on tolls—£1 over two years—as what might be the consequence of that renegotiation?

Mike Penning: No, I don't think that. I think that the contractual agreement for the tolls at Severn is at the RPI anchored to the nearest 10p, and that is where the contractual obligation situation is. I can't show my hand, as you can imagine, as much as I like being honest with the Committee as much as possible, as to

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what could happen with the costs should we get free flow. I think we should have free flow. It is an economic issue as well as an issue of almost morality, if you wish, as to, “Is it right that you make people queue to pay something in that way when we have the technology to prevent it from happening?”

It shouldn’t be anywhere near as expensive as Dartford. I have to completely realign the traffic coming off of the Dartford Bridge, the QEII Bridge, which is actually a major piece of road infrastructure where the major costs are. Of course there will be substantial savings should you have free flow because you don’t have the toll booths, you don’t have the costs of actually banking all that coin, and you don’t have the people collecting it and carrying it. It is a balance between the two and I can see huge benefits to actually having free flow.

Chair: We can as well, I think, and we look forward to seeing that happen soon. Can we bring in Jessica Morden for a few questions on maintenance?

Q371 Jessica Morden: Just on maintenance, can you explain the split on how maintenance is allocated between the Highways Agency and Severn River Crossing?

Mike Penning: That is where the Highways Agency comes in.

Graham Bowskill: The Severn River Crossing company have taken over responsibility for both bridges. It is their responsibility to operate and maintain those two crossings with a few exceptions. One exception is that winter maintenance is not carried out under the concession. That is carried out by the contractor that looks after what I call Area 2—the Bristol trunk roads.

The other exception is where there are substantial defects that were deemed to be there before they took over the concession that they could not have envisaged when they priced their bid. It would have been a risk that would have been a costly risk for them to take. One of those latent defects is the corrosion in the main cables of the Severn Bridge. That is a cost that falls to the Highways Agency, although actually treating that problem—that maintenance problem—is something that SRC do on our behalf.

Q372 Jessica Morden: Are there any other major pieces of maintenance that have got to be completed by 2017 and, if so, how are you going to ensure that the taxpayer does not have to pick up the burden of those on the bridges?

Graham Bowskill: Under the concession, there are very clear requirements for maintaining the bridge. We have regular meetings with the operator to talk about their obligations under the concession. I know, for example, that there will be a need to resurface the second Severn crossing and that is factored into their maintenance for the bridge before the end of the concession. But when they hand the bridges back, they will have been maintained as far as possible, the same as we would do if it was in direct ownership and in accordance with the concession. The only reason I say “as far as possible” is because we have the cable corrosion, which is a separate issue, that we believe we have addressed actually. We believe that that has

been a very successful treatment with the dry air injection which should now have stabilised the Severn Bridge to give us a long continued life.

Mike Penning: Just to elaborate on what my official was just saying, I will personally—and I am sure any Minister in my position would—keep a very close eye on the maintenance in the run-up to the handover of the concession. The concept of it being handed over—and I am sure this is not the intention of the company—in a condition which is not in the maintained state that we would expect it to be in under the contract will mean that we will keep a very, very close eye as it is handed over. It will be handed over in a condition which is right and proper.

Q373 Chair: Minister, or Mr Bowskill, I can understand why the Highways Agency had to take the responsibility for something that went wrong—“a latent defect”, you call it—on the old bridge, but presumably if one found a latent defect on the new bridge, that would be the responsibility of SRC since they built it?

Graham Bowskill: Absolutely.

Chair: Okay, that is great. I like the enthusiastic nodding.

Mike Penning: Just to touch on that, Chairman, the key is that, on handover, we make sure that any latent defects that are there, which would then become the responsibility of us as taxpayers on the new bridge, are addressed before there is any handover to us. I don’t know of any, but in case there is we need to make sure that is the case.

Q374 Chair: Do you have any further questions on maintenance this morning? In that case, can I ask a very quick one? I hope it is not too far off the subject. I am not suggesting anything, but how do you actually know that the number of cars that SRC report going through each day are the number that actually go through? It is not an unreasonable question, is it?

Mike Penning: No, no, very fair.

Graham Bowskill: I know that there are monitoring systems in place and we have somebody called the Government Representative, who works very closely with the operator but who is totally independent of the operator, who gives us reports on how the operations are progressing.

Chair: Okay; that’s fine.

Q375 Jonathan Edwards: Obviously, one of the consequences of the economic downturn has been less traffic on the actual bridge and consequently less revenue. So how confident are you that we are going to reach the end of the concessionary period at 2017?

Mike Penning: All the evidence and modelling that has been taken at the moment will bring us in to 2017. The interesting thing is yes, there was and is a downturn, but it is not huge in costs of revenue terms. As the economy is picking up, I think—and this is another hint, I suggest—if we went to free flow, we would see an increase in traffic both ways because the concept of being able to just go from A to B without worrying about if you are going to have to queue, etc. is a completely different concept to actually saying, “Will we go from there to there, and we are likely to

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be delayed for X, Y or Z?" The congestion there is nowhere near as bad as it is at Dartford. At times it is horrendous, but it is nowhere near as bad on a daily basis. I think it will be an incentive economically if we can get free flow as well and that will bring it up.

Chair: Thank you, Minister. Can we have a couple of quick-fire questions in the last few minutes?

Q376 Owen Smith: What should the toll be, Minister, when the bridge reverts back to public ownership?

Mike Penning: I am very sorry, I had someone speaking in my ear.

Q377 Owen Smith: I thought so. What do you think the toll should be when the bridge reverts back to public ownership?

Mike Penning: That is something that, as yet, will be a figure we don't know. What is for sure is that there is debt on the books that will mean, once the concession stops, we are going to have to bring back in. It is another debt that we have incurred as taxpayers, as the Government. The Treasury will be heavily involved, as you can imagine, in it as well, but the key will be that the cost of maintaining what we have is where we should be. Now where that line is drawn, I really don't know.

I just need, Mr Chairman, to confirm one thing so that the Committee is fully aware. The card machines were up and running on Friday 5 November, which is very apt probably.

Geraint Davies: Guy Fawkes Night.

Q378 Owen Smith: It is interesting that you said, Minister, that you thought, broadly speaking, the costs should reflect the price of maintaining the bridge. From our analysis and from the questioning we have done, it looks as though that is about £12 million a year for both bridges and therefore it looks as though around £1 a car, on current prices, would cover the costs of maintenance. Does that sound reasonable?

Mike Penning: I'm not going to be drawn into an individual fiscal analysis of the bridge. It is not just about the maintenance of the bridge. It is also about investment in further infrastructure around it as well. Dartford is an example of that. For instance, at Dartford, not only will the 50p increases over each year, or two years, enable us to do the free flow, but they will actually allow free use of the tolls when the congestion gets particularly bad so they are not chargeable. To start the infrastructure talks, there are the early costs of a new river crossing down there as well, so we are not putting a burden back on to the taxpayer again as in the earlier negotiations on that.

Q379 Chair: Just to push you on this in the last minute or two before I bring in two other people, it was not a bad analysis. Of course it was a slightly rough one that we did, but clearly there is a huge profit being made by the Government. Would you accept that it would be wrong for the Government to be

making a huge profit out of people who are randomly located in the UK just because they happen to be near the Severn Bridge?

Mike Penning: The principle of tolling estuarial crossings is there. It has been there since day one.

Q380 Chair: It is a hugely profitable one.

Mike Penning: I am not going to get into the realms of the Government making huge profits. What we need to say is that tolling is there, it is going to be there and it is actually something that the British public have accepted for many, many years. It is a national piece of infrastructure that needs to be there.

Chair: A very, very quick question, please.

Q381 Geraint Davies: Given that it is possible to move in 2017 to a toll of £1 a car from one of £5.50 a car and given the economic times we are going through, would you think there is a good argument to have a more gradual change and perhaps bring forward more quickly an earlier toll to enable an earlier economic benefit to the economy?

Mike Penning: For me, I don't think it is possible and you would not expect me to agree that we would move from £5.50 to £1 because I don't necessarily and can't necessarily accept the analysis that £1 is the right figure. Let's see how the negotiations go over the next seven years and the decisions that the Government will have to make as to what the future of tolling at the Severn Bridge is.

Q382 Jonathan Edwards: There were some pretty strong views about the post-2017 situation so, as part of the respect agenda, when do you envisage having negotiations with the Welsh Government on what is going to happen after 2017?

Mike Penning: Well, it is national infrastructure. It has a major effect on the Welsh economy and we will continue and work closely with the Welsh Assembly, but it is a piece of British national infrastructure.

Q383 Jonathan Edwards: Part-ownership would not be of any interest to you?

Mike Penning: It is a piece of British national infrastructure.

Q384 Chair: Mr Penning, a last final question—the chair's prerogative. Would you agree, in the interests of openness and transparency, that we ought to be given an accurate figure as to what the estimated costs of maintenance are and that any future Government should publish full details of how much they are spending on the bridge and how much profit they are making?

Mike Penning: I don't see any reason why, in the spirit of open government, that should not take place.

Chair: Thank you very much indeed for coming along today. We very much enjoyed that. Thanks a lot.

Mike Penning: It was very enjoyable. Four weeks into a new portfolio, it was very enjoyable!

Written evidence

Written evidence from the Campaign Against Severn Tolls (CAST)

As an organisation set up to abolish the Severn Bridge tolls in Wales, which has a considerable amount of support from the people in Wales for the campaign, we have already submitted an online petition to the Welsh Assembly Government calling for the abolition of the two Severn bridge tolls. This is already being investigated and discussed by the Petitions Committee of the Welsh Assembly. Also we have had considerable support from Welsh Assembly AMs and MPs in support of our campaign. We are of the opinion along with the population of Wales and all visitors to the Country that the Severn tolls are an unfair tax imposed on all Severn Bridge users entering into Wales.

1. The impact on the Welsh economy is considerable. It is stunting economic growth, along with tourism and the freight and haulage industry. The damage to Welsh business is causing huge damage to all sectors.

2. The current level of toll charges is far too high and CAST understands that some companies have decided against setting up any bases in Wales because of the Severn toll charges. Also a number of tourists have contacted us to complain about the toll charges and have told us that this will definitely be a factor when considering whether to visit Wales again.

3. We have concerns about the damage and the corrosion to the main cables and repairs to the cantilever edges of the first Severn Bridge. Under the concession agreement signed by the UK Government with the private company that runs the Severn tolls, the taxpayer is still contributing to the maintenance of the bridge repairs. This is totally unfair that a private company is making a profit while the taxpayer is being charged for the maintenance of their bridge.

4. We advocate that when the bridges have reverted to public ownership, the tolls should be abolished. This would have a considerable effect on lifting the economy in Wales and bring parity in line with the rest of the UK where tolls have been abolished. In principle the two Severn bridges were built with public taxes and as road users already pay a considerable amount of their income in road taxes, we advocate that the two Severn crossings should be free to use.

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Written evidence from The Chartered Institute of Logistics and Transport (UK) Cymru Wales

EXECUTIVE SUMMARY

- The exact impact of the tolls is difficult to quantify.
- Potential negative impacts include distorting the employment market, increasing freight transport costs, creating traffic flow imbalances and reducing the competitiveness of logistics providers based in Wales.
- However, logistics operations have been attracted to South East Wales.
- Current tolls help to equalise car and rail costs on the Cardiff to Bristol corridor, although they also penalise regular bus service operating costs.
- Credit and debit card payment methods are welcomed.
- There are a wide range of future strategies for toll levels, all with strengths and weaknesses.
- It is important to balance economic and environmental objectives, to ensure strategic objectives such as those in the Wales Transport Strategy are met.
- Retaining the tolls to cover maintenance costs will reduce pressure on the public purse.
- New methods for payment should be adopted once the technology is mature and in regular use elsewhere.
- Any introduction of road tolling in the UK should see the Severn Crossing toll adjusted so that there is no increase in cost to users.

INTRODUCTION

1. The Chartered Institute of Logistics and Transport (UK) Cymru Wales welcomes the committee's decision to conduct an inquiry into the Severn crossing tolls. With the bridges likely to return to public ownership mid-way through the next decade, now is an appropriate time to consider both the impact of the current tolls on Wales as well as formulating a strategy once the change of ownership takes place.

2. There are three sections to this evidence. First, we consider the impact of the tolls, on both passenger and freight operations. We then focus upon the tolls levied for crossing the bridges and the options for payment. In doing so, we both reflect on the current situation and also consider potential future directions, particularly once the crossings return to public ownership.

IMPACT OF THE TOLLS

3. Quantifying the exact impact of the Severn crossing tolls on the Welsh economy is difficult to do. However, it is possible to make some qualitative observations on potential impacts.

4. In terms of employment, the presence of the tolls undoubtedly distorts the market. Anyone wishing to commute between South Wales and South West England (or vice versa) will incur an additional daily cost in the journey to/from work. For those on a medium to high salary, this may not have a significant influence—there is a noticeable commuter market using the crossings. However, for those in low to medium salary jobs, the cost has more significant implications and therefore may limit access to employment opportunities across the estuary.

5. For businesses and consumers based in Wales, there is also an impact on the total cost of goods that use the crossings. Based on data from the Wales Freight Strategy, we estimate that between 25% and 30% of goods (by weight) moving to or from Wales may use the crossings as part of their journey. While this toll may increase the cost of the product, a more likely outcome is that the toll will reduce the profit margin of the supplying business and/or the logistics provider. The only exception to the above, where a toll is not paid, is when the vehicle is making a number of deliveries and can follow a circular route across the Severn on the outbound journey and then return via Gloucester. Traffic counts on the A48 have shown this practice to occur, with traffic imbalances on the A48 between Gloucester and Chepstow.

6. Indeed, it is probably the logistics provider that is impacted most significantly, insofar as they are the ones that pay the toll. In terms of the physical movement of goods, the impact is the same regardless of whether the company is based in Wales, England or even from continental Europe. However, there are additional disadvantages to Welsh based logistics providers (this includes UK wide companies with depots in South Wales). Many loads that are moving from Wales are carried by locally based vehicles and, in the course of returning home, they have to pay the toll. This gives a penalty to their operating costs compared to those operators who do not use the crossings extensively. Equally, the presence of tolls precludes South Wales logistics operators from competing for business in South West England, on the basis that the vehicles will have to position across the crossings.

7. Despite these disadvantages, we are not aware of any situations where a company has not located a facility because of the tolls. The region has historically attracted a number of logistics operations which generate significant traffic on the crossings—Tesco and Wilkinson at Magor, Asda in Chepstow. Indeed, Tesco has recently increased the size of their operations at Magor with a trunking station adjacent to the distribution centre. However, they have also relocated their Chepstow facility to Avonmouth. While such decisions include many variables, the crossings will have featured in the decision making, both in terms of the tolls and also the reliability of operations in bad weather.

CURRENT TOLLS

8. The current levels of tolls are well known, as is their method of calculation (based on the Retail Price Index). However, the tolls need to be considered within the context of the total cost of the journey, and also their price relative to competing modes.

9. In terms of the movement of people, Annex 1 provides a summary of road and rail costs for a number of point-to-point movements along the M4 corridor. For road movements, these calculations only consider the amount of fuel used (for a variety of fuel consumption levels and petrol prices). Rail prices are based on walk up fares in peak and off peak periods. Although simplistic, they do provide some interesting insights into the cost differentials. The figures show that in the Cardiff/Barry to Bristol zone, road costs with the toll are comparable to, and often more expensive than off peak rail fares. With journey times also comparable, it is clear that road and rail do compete on a comparable basis with the tolls levied on the crossings. An exception is from Chepstow where no direct service exists and the rail journey includes a degree of doubling back. In terms of the scale of traffic flows, the Network Rail Route Utilisation Strategy for the Great Western region provides the following data:

- Bristol Temple Meads to/from Cardiff—416,000 journeys per year.
- Bristol Temple Meads to/from Newport—176,000 journeys per year.
- Bristol Parkway to/from Cardiff—147,000 journeys per year.

10. Regardless of the longer term strategy (discussed below), consideration should be given now to lowering the charge for buses to use the crossings, to encourage new services to be developed. Currently, these vehicles pay the same amount as trucks. However, while the toll is fixed, the number of passengers

using the vehicles can vary. Therefore, frequencies and fares need to be adjusted to ensure the costs of operating the service and the toll are covered. Currently, the only regular service (not including National Express coaches) is the X10/X11/X14 group of services, which offer an hourly frequency between Newport, Chepstow and Bristol. However, these only operate in the daytime—the latest departure in either direction being at 18.40 pm from Bristol—and there is no service on a Sunday. Lower tolls may enable an increase in frequency, additional evening services or a Sunday service.

11. For freight, road against rail comparisons are harder to make due to a lack of information on rail freight costs. However, with rail more often than not competing for mid to long distance flows, the tolls represent a smaller percentage of the total journey cost and therefore has less of an influence on the decision.

12. In terms of payment methods, we believe that limiting payment methods to cash and cheques has been a mistake. The situation is further complicated by the ‘cash only’ bins being limited to coins—once the price exceeded £5, the need for accepting notes as well increased. Given that many people only carry small amounts of cash, preferring to rely on credit and debit cards, the implementation of card payments by the end of September is to be welcomed. We also believe that accepting payment in Euros is a good idea, both for tourists and also the increasing number of European freight vehicles on the UK road network.

THE FUTURE OF THE BRIDGES

13. With the bridges returning to public ownership during the next decade, there are a number of options for the forward strategy in relation to the tolls:

- Removing the tolls—such an approach has been adopted elsewhere, such as the Skye bridge in Scotland.
- Lowering the tolls—this would offset some of the other increases in the cost of road transport while providing an income stream.
- 2 way tolls—this would balance the cost between both directions. According to the Severn Bridge Act 1992, this change could be implemented before the end of the current concession.
- Differential tolls by route—this would see different toll levels on each bridge. The cost differences could be used to influence vehicle routing, for example, lower tolls for trucks on the new bridge to relieve traffic flow on the lower capacity old bridge.
- Differential tolls by time of the day—Prices would be adjusted depending upon when the vehicle is using the crossings. This can already be seen on the M6 toll road, where movements between 11.00 pm and 6.00 am and on weekends are discounted, and the Dartford Crossing, with no charges between 10.00 pm and 6.00 am.
- Discounts for eco-friendly vehicles—this would encourage the use of environmentally friendly vehicles. Such options could be lower/no tolls for zero emission vehicles, or Euro IV or V trucks.
- Reductions for local users—for those who live locally to the crossings and purchase a tag, a discount on the cost could be offered. An example of this can be found at the Dartford crossing.
- Reductions for large volume users—this option would see a tiered charging system introduced, depending upon the number of crossings made in a month. This would be particularly attractive to logistics operators who may have many thousands of crossings per month.
- Price increases—continue the current trend of annual increases, either using the current formula (based on RPI) or a new calculation.

14. Strengths and weaknesses of each option can be found in Table 1.

15. In terms of what the money from the tolls are used for, we suggest that in the first instance the money should be used to cover the maintenance costs of the bridge. Using the tolls to cover these costs will help reduce the impact on the public purse of road maintenance. Unlike some other tolled crossings in the UK, the Severn estuary can be quite an inhospitable environment at time, which may lead to higher long term maintenance costs than elsewhere. Any surplus after this should then be retained for transport infrastructure investment.

Table 1
EVALUATION OF OPTIONS FOR SEVERN CROSSING TOLLS

<i>Option</i>	<i>Strengths</i>	<i>Weaknesses</i>
Removing the tolls	<ul style="list-style-type: none"> — Open up employment market across the Severn — Reduced transport costs for businesses using the crossings — Provide free access to motorway — Speeding up flow of traffic 	<ul style="list-style-type: none"> — Increased traffic due to modal shift from rail, going against objectives of the Wales Transport Strategy — Maintenance costs to be covered from the overall transport budget
Lowering the tolls	<ul style="list-style-type: none"> — Reduce the penalties for users of the crossings — Continued income stream to cover maintenance — May encourage new bus services 	<ul style="list-style-type: none"> — Weakened competitive position of rail transport — Over time, tolls may return to current levels
2 Way tolls	<ul style="list-style-type: none"> — Balance the level of tolls for vehicles travelling in both directions 	<ul style="list-style-type: none"> — Requires new infrastructure on eastbound carriageways
Differential tolls by route	<ul style="list-style-type: none"> — Encourage traffic flows onto particular bridges (eg trucks onto second crossing) 	<ul style="list-style-type: none"> — No significant time/distance difference between both routes, which may undermine effectiveness
Differential tolls by time of the day	<ul style="list-style-type: none"> — Encourage freight to travel during the night (where possible) — Maintain competitive position of rail in peak time — Smoothing traffic flows may reduce congestion 	<ul style="list-style-type: none"> — Slightly more complex to manage — Could become over-complicated if too many bands are introduced — Price difference needs to be significant to influence travel patterns
Discounts for eco-friendly vehicles	<ul style="list-style-type: none"> — Consistent with strategy to develop alternative fuels along the M4 corridor — Consistent with Wales Transport Strategy in reducing emissions 	<ul style="list-style-type: none"> — Additional complexity in identifying eco-friendly vehicles which may increase queues at the toll booths — Availability and affordability of eco-friendly vehicles influences effectiveness
Reductions for local users	<ul style="list-style-type: none"> — Removes penalty for those living close to the bridge where no other options exist — Benefits to businesses who have to use the bridge to make deliveries — Would not reduce competitiveness of rail in these markets 	<ul style="list-style-type: none"> — Harder to administer — May encourage “rogue” behaviour (eg false addresses, selling tags)
Reductions for large volume users	<ul style="list-style-type: none"> — Particularly of benefit to logistics providers in Wales — Lower impact of crossing tolls on Welsh businesses more widely — New bus services may be developed if the toll structure is correct 	<ul style="list-style-type: none"> — May be perceived as encouraging extra road transport movements — Requires tagging of vehicles — Greater complexity in administration
Price increases	<ul style="list-style-type: none"> — Keep road and rail costs on Cardiff—Bristol corridor broadly aligned — Maintains the status quo 	<ul style="list-style-type: none"> — Rail fares would still become more expensive as permitted annual increase greater than current formula for tolls — Politically unpopular

16. There are also a number of options for future payment methods, and it is important that, if tolls remain, then the latest technologies are used. Examples include:

- Smartcards—probably the most widespread technology currently available, such as the Oyster system in London and the concessionary pass in Wales. Any system may need to be ITSO compliant to meet national standards and offer inter-operability with other uses (e.g rail tickets).
- Contactless payment—this technology is already entering the market with Barclaycard issuing cards capable of this for purchases under £15.
- Automatic Number Plate Recognition (ANPR)—used to enforce the London congestion charge. If the technology can be shown to be reliable at motorway speeds, this could enable the removal of the toll plazas to increase the flow along the motorways. However, consideration also needs to be given with this technology to enforcement of the tolls, for both UK and overseas vehicles.

17. As the payment process provides more automated options, a further variation in tolls may be worth considering, reflecting the additional costs in handling cash payments. This would see a lower toll level for the use of automatic payment methods (eg Smartcards). With credit and debit card payments starting in September, it will be possible to assess the take up of this payment approach which can then inform future decision making. Consideration should, however, be given to whether there are any equality issues, as not everyone may have the use of credit/debit cards (or Smartcards in the future).

18. Finally, any decisions need to be reconsidered should road pricing be introduced more widely in future. In such circumstances, it may be appropriate to reduce/remove the tolls to offset the costs incurred through road pricing.

CONCLUSION

19. Overall, the Severn Crossing tolls are an issue of significant importance to people and businesses in South Wales. Although no quantitative evidence exists, it can be qualitatively demonstrated that there are a number of negative impacts of the tolls. These include a distortion of the employment market, increased transport costs for goods travelling to/from South Wales and reduced competitiveness for businesses in the region. On the other hand, the current level of tolls equalises the cost of using road and rail for personal travel on the Cardiff—Bristol corridor. This encourages people to use rail over road transport, which aligns with one of the objectives of the Wales Transport Strategy.

20. We have also put forward a wide range of future options, including removing the tolls, changing the price (both upwards and downwards) and varying the price according to a number of different attributes. All of the options have both strengths and weaknesses, from an economic, environmental and social perspective.

21. In considering the way forward for the crossings once they revert to public ownership, the strategy adopted is unlikely to please all stakeholders. Removing or lowering the tolls would be welcomed by users of the crossings and bring economic benefits, while maintaining or increasing the current toll levels would be more appealing to rail transport operators, environmentalists and would also be more consistent with the carbon reduction strategies in Wales. Therefore, the committee's recommendations need to, in particular, balance the economic and environmental impact of changes to the tolls levied.

ABOUT THE CHARTERED INSTITUTE OF LOGISTICS AND TRANSPORT (UK)

22. The Chartered Institute of Logistics and Transport (UK) is the pre-eminent independent professional body for individuals associated with logistics, supply chains and transport planning. The Chartered Institute of Logistics and Transport (CILT) International—formerly The Chartered Institute of Transport—was formed in 1919 and was granted its Royal Charter in 1926. Growth of its overseas sections led to a restructuring in 1994 under which 10 national councils were established in various parts of the world. The Institute operates as a co-ordinating body and custodian of the Royal Charter.

23. The Institute of Logistics and Transport was formed in June 1999, following the integration of The Institute of Logistics and The Chartered Institute of Transport in the UK. In April 2004 the Institute's membership voted in favour of ILT adopting the word "Chartered" into its title. In May 2004 the Institute officially became The Chartered Institute of Logistics and Transport in the UK—CILT(UK). In Wales, CILT(UK) Cymru Wales is responsible for the organisation of events for local members and also comments on transport policy issues which apply to Wales. It is on this basis that we are providing evidence to this Committee. We have over 600 members within Wales, covering transport planning as well as passenger transport and logistics operations.

COMPARISONS OF ROAD AND RAIL COSTS

The cost comparisons are on the basis of one person travelling either by car or Standard Class rail. Road distances and times from Google Maps route planning; rail data from National Rail website.

Cardiff—Bristol

Road Distance (miles)	44.2
Road Time (mins)	50
Rail Cost (Peak)	£13.90
Rail Cost (Off Peak)	£9.40
Rail Time (mins)	48–53

Price (£/litre)		£1.00	£1.10	£1.20	£1.30
Miles					
Per gallon					
30	No toll	£5.58	£6.13	£6.69	£7.25
	Toll	£11.08	£11.63	£12.19	£12.75
40	No toll	£4.18	£4.60	£5.02	£5.44
	Toll	£9.68	£10.10	£10.52	£10.94
50	No toll	£3.35	£3.68	£4.02	£4.35
	Toll	£8.85	£9.18	£9.52	£9.85

Chepstow—Bristol

Road Distance (miles)	17.5
Road Time (mins)	24
Rail Cost (Peak)	£8.40
Rail Cost (Off Peak)	£7.90
Rail Time (mins)	84

Price (£/litre)		£1.00	£1.10	£1.20	£1.30
Miles					
Per gallon					
30	No toll	£2.21	£2.43	£2.65	£2.87
	Toll	£7.71	£7.93	£8.15	£8.37
40	No toll	£1.66	£1.82	£1.99	£2.15
	Toll	£7.16	£7.32	£7.49	£7.65
50	No toll	£1.32	£1.46	£1.59	£1.72
	Toll	£6.82	£6.96	£7.09	£7.22

Bridgend—Bristol

Road Distance (miles)	60.62
Road Time (mins)	67
Rail Cost (Peak)	£17.90
Rail Cost (Off Peak)	£16.90
Rail Time (mins)	78–86

Price (£/litre)		£1.00	£1.10	£1.20	£1.30
Miles					
Per gallon					
30	No toll	£7.65	£8.41	£9.18	£9.94
	Toll	£13.15	£13.91	£14.68	£15.44
40	No toll	£5.73	£6.31	£6.88	£7.46
	Toll	£11.23	£11.81	£12.38	£12.96
50	No toll	£4.59	£5.05	£5.51	£5.96
	Toll	£10.09	£10.55	£11.01	£11.46

Cardiff—Bath

Road Distance (miles)	56.4
Road Time (mins)	71
Rail Cost (Peak)	£18.00
Rail Cost (Off Peak)	£16.00
Rail Time (mins)	65

Price (£/litre)		£1.00	£1.10	£1.20	£1.30
Miles					
Per gallon					
30	No toll	£7.12	£7.83	£8.54	£9.25
	Toll	£12.62	£13.33	£14.04	£14.75
40	No toll	£5.34	£5.87	£6.40	£6.94
	Toll	£10.84	£11.37	£11.90	£12.44
50	No toll	£4.27	£4.70	£5.12	£5.55
	Toll	£9.77	£10.20	£10.62	£11.05

Newport—Bristol

Road Distance (miles)	30.5
Road Time (mins)	38
Rail Cost (Peak)	£11.70
Rail Cost (Off Peak)	£9.00
Rail Time (mins)	34–38

Price (£/litre)		£1.00	£1.10	£1.20	£1.30
Miles					
Per gallon					
30	No toll	£3.85	£4.23	£4.62	£5.00
	Toll	£9.35	£9.73	£10.12	£10.50
40	No toll	£2.89	£3.18	£3.46	£3.75
	Toll	£8.39	£8.68	£8.96	£9.25
50	No toll	£2.31	£2.54	£2.77	£3.00
	Toll	£7.81	£8.04	£8.27	£8.50

Barry—Bristol

Road Distance (miles)	55.6
Road Time (mins)	69
Rail Cost (Peak)	£14.40
Rail Cost (Off Peak)	£10.60
Rail Time (mins)	93–96

Price (£/litre)		£1.00	£1.10	£1.20	£1.30
Miles					
Per gallon					
30	No toll	£7.02	£7.72	£8.42	£9.12
	Toll	£15.52	£13.22	£13.92	£14.62
40	No toll	£5.26	£5.79	£6.31	£6.84
	Toll	£10.76	£11.29	£11.81	£12.34
50	No toll	£4.21	£4.63	£5.05	£5.47
	Toll	£9.71	£10.13	£10.55	£10.97

Caerphilly—Bristol

Road Distance (miles)	42.5
Road Time (mins)	55
Rail Cost (Peak)	£16.80
Rail Cost (Off Peak)	£12.20
Rail Time (mins)	83–86

Price (£/litre)		£1.00	£1.10	£1.20	£1.30
Miles					
Per gallon					
30	No toll	£5.36	£5.90	£6.44	£6.97
	Toll	£10.86	£11.40	£11.94	£12.47
40	No toll	£4.02	£4.42	£4.83	£5.23
	Toll	£9.52	£9.92	£10.33	£10.73
50	No toll	£3.22	£3.54	£3.86	£4.18
	Toll	£8.72	£9.04	£9.36	£9.68

Newport—Bath

Road Distance (miles)	42.7
Road Time (mins)	56
Rail Cost (Peak)	£16.80
Rail Cost (Off Peak)	£13.90
Rail Time (mins)	51

Price (£/litre)		£1.00	£1.10	£1.20	£1.30
Miles					
Per gallon					
30	No toll	£5.39	£5.93	£6.47	£7.00
	Toll	£10.89	£11.43	£11.97	£12.50
40	No toll	£4.04	£4.45	£4.85	£5.25
	Toll	£9.54	£9.95	£10.35	£10.75
50	No toll	£3.23	£3.56	£3.88	£4.20
	Toll	£8.73	£9.06	£9.38	£9.70

Cardiff—Swindon						Newport—Swindon					
Road Distance (miles)		72.6				Road Distance (miles)		59			
Road Time (mins)		84				Road Time (mins)		58.9			
Rail Cost (Peak)		£26.80				Rail Cost (Peak)		£22.40			
Rail Cost (Off Peak)		£16.60				Rail Cost (Off Peak)		£14.40			
Rail Time (mins)		62				Rail Time (mins)		48			
<i>Price (£/litre)</i>						<i>Price (£/litre)</i>					
<i>Miles</i>						<i>Miles</i>					
<i>Per gallon</i>						<i>Per gallon</i>					
		<i>£1.00</i>	<i>£1.10</i>	<i>£1.20</i>	<i>£1.30</i>			<i>£1.00</i>	<i>£1.10</i>	<i>£1.20</i>	<i>£1.30</i>
30	No toll	£9.16	£10.08	£10.99	£11.91	30	No toll	£8.71	£9.58	£10.45	£11.32
	Toll	£14.66	£15.58	£16.49	£17.41		Toll	£14.21	£15.08	£15.95	£16.82
40	No toll	£6.87	£7.56	£8.24	£8.93	40	No toll	£6.53	£7.18	£7.84	£8.49
	Toll	£12.37	£13.06	£13.74	£14.43		Toll	£12.03	£12.68	£13.34	£13.99
50	No toll	£5.50	£6.05	£6.60	£7.15	50	No toll	£5.2	£5.75	£6.27	£6.79
	Toll	£11.00	£11.55	£12.10	£12.65		Toll	£10.72	£11.25	£11.77	£12.29

September 2010

Written evidence from the Federation of Small Businesses

I would like to inform you that The Federation of Small Businesses (FSB) commissioned Aberystwyth University to investigate the economic impact of the Severn bridge tolls on the economy. I believe this research will be of much benefit to the Committee.

I would like to point out some highlights of the research. There are several general policy conclusions and options to be drawn from the arguments presented during the research:

Firstly, there is a general case to be made for the systematic management of the road transport network in order to promote efficiency and economic welfare. If capital costs are to be recovered through charging then, logically, on grounds of equity, all road enhancements should recover their cost from proportionate charges, not simply those which are exceptionally expensive. Any new piece of road infrastructure brings benefits in terms of enhanced safety, improved access and reduced costs, and these considerations, alongside concerns to manage the financial cost of road building and repair, deal with the associated environmental consequences of increasing traffic, and regulate congestion, provide a platform for a system of universal road pricing. Yet, until a politically acceptable and practically feasible scheme for achieving this can be designed, piecemeal tolls and congestion charging will cause distortions which affect mobility and accessibility. While most will be of minor significance, some of the more acute of these emerge from our survey findings.

Secondly, the importance of a European policy perspective emerges from our study. Unlike the case at Humber, where the Bridge divides a city and acts as an intra-urban link, the M4 crossing is a key through route, which is also highly significant in trans-European terms. Treating the crossing differently and continuing to levy a toll on the Bridge section of this route should be considered in the light of overall commercial circumstances in the EU, including comparative location conditions and the arrival of low cost Member states, which are already seen to pose a threat to business competitiveness in the UK. Interestingly, there is also some support among stakeholders for the development of a pan-European system of road pricing—if it is accepted that such charges are inevitable—which would create “a level playing field” for all EU commerce and enterprise.

Thirdly, and as a consequence of the appreciably greater impact on businesses on the South Wales side of the Crossings, it is anomalous and inequitable that the Severn Bridge Act 1992 vests sole power with the Westminster Secretary of State for Transport, over the decision to end or modify the toll charges. Strategic supervision of national transport infrastructure (which is a legitimate function for the UK Government) needs to be balanced by consideration of the more pronounced local consequences: there should at least be a co-decision framework, involving the Welsh Assembly Government (WAG) and the Westminster Department of Transport who will effectively be co-owners of the crossings when the capital cost has eventually been defrayed. The well-known maxim that “devolution is a process, not an event” should focus attention on this anomaly, and as with rail transport issues, seek a greater voice for the devolved administration in determining issues of considerable local importance. An early inquiry by the Assembly’s Economic Development and Transport Committee could establish the scope and relevance of any legal reform.

The findings of this report indicate how important it is to more effectively communicate the rationale for continuing to charge a toll to users of the Crossings. It is now a common public perception that the cost of maintenance is a relatively small proportion (under 5%) of the toll revenues—and this report indicates that the cost of the charge falls disproportionately heavily on Welsh businesses.

In terms of options for the future, however, recession and the squeeze on public spending make it highly unlikely that the annual revenue stream from the Severn Bridge toll of approximately £70 million will be given up lightly; furthermore a maintenance-only charge would probably cost more to collect than it would yield. Clearly, policy beyond 2016 is not clear cut and there is a strong case for reviewing the continuation of uniform charges—and for an opening up of the debate.

So what are the real options with respect to removal, freezing, and real-terms reduction for policy development? In pragmatic terms, current legislation provides for the Westminster Department of Transport to have the sole power of decision; and a likely and welcome scenario might be a freezing of tolls in nominal terms, and limited take for five more years, post-amortisation. However, given the impact reported by businesses that are highly dependent on the Crossings, there are good arguments for a smarter approach, designed to offset detrimental impacts. This might include discounted toll rates for regular business usage; purchase of multi-trip toll cards; revision of the ratio of charges for different categories of vehicles to reduce costs for commercial traffic; and (although these would not be welcomed by the transport sector) peak time differentials.

Finally, although revenues from the Seven Crossings toll will belong by statute to the Westminster Department of Transport and consequently would be absorbed by the Exchequer into income from general taxation, there is an undoubtedly strong moral basis for such proceeds to be shared with the Welsh Assembly Government. Additionally, since the charges are borne entirely by road users, there are highly persuasive arguments in support of the view that this share should be exclusively hypothecated to improvement of the Welsh transport infrastructure, either directly for road maintenance and improvement, or for the enhancement of public transport systems in a rational and integrated way throughout Wales, with the aim of promoting both social and economic objectives, minimising environmental impact and reducing road congestion.

October 2010

Written evidence from the Freight Transport Association (FTA)

1. The Freight Transport Association welcomes this opportunity to provide evidence to the Welsh Affairs Committee (WAC) on the impact in Wales from tolling off the Severn crossings located on the M48 and M4; two important trade routes which constitute part of the Trans European Route Network. In this submission FTA will be concentrating on the areas which have a direct impact on our membership, namely:

- The impact of the tolls on the Welsh economy including businesses, local residents and tourists.
- The current level of toll prices and the available methods of payment.
- The futures of the bridges after the crossings have reverted to public ownership in 2017.

INTRODUCTION

2. The Freight Transport Association (FTA) represents over 14,000 companies engaged in the transport of freight both domestically within the UK and internationally. Contrary to public perception, FTA members are about much more than just getting goods from A to B. FTA members constitute every part of the supply chain, from operators, carriers, freight service providers, through to suppliers of raw materials, retailers, manufacturers, and wholesalers, covering all modes of transport—road, rail, water and air.

3. Freight transport touches every aspect of society and the economy. The goods on our shop shelves or delivered to our door must first be moved as freight. Efficient supply chains bring the consumer all-year-round product availability, up-to-the-minute fashions and rapid response times to orders placed in the comfort of our own homes.

4. Road currently remains the dominant land freight mode between Wales, the United Kingdom and Europe. This is because road freight movement has a number of advantages to the end user relative to other modes, such as:

- direct access to/from collection and delivery points (ie door-to-door);
- flexibility and freedom for the supplier (or his nominated contractor) to match fleet capacity (number and size of vehicles) to demand (volume/weight of goods to be moved);
- ability to operate “Just in Time” delivery systems, whereby the combination of direct access and flexibility of fleet capacity enables a supplier (or his contractor) to replenish customer stock levels “Just in Time” (ie when stock has declined to a pre-determined minimum level);
- speed of both delivery and collection; and
- highly professional services.

5. Profit margins within the logistics industry are traditionally slim, more so in this time struggling economy, which has seen many smaller operators go out of business or forced to drastically reduce their workforce. Subsequently, vehicle operators are looking closely at all their costs to ensure the viability of their businesses. Fuel, for example, represents a quarter of the overall vehicle operating costs, and in some cases this will be absorbed by the operator to ensure that contracts are maintained.

6. Considering the present economic environment, it is important that external business costs as a direct result of Government decisions are carefully regulated. FTA doubts that when the methodology for setting the Severn Bridge tolls was originally agreed, it was not imagined that they would result in some of the

highest tolls on a road infrastructure anywhere in the UK, and with RPI already exceeding 5% this year, users can only brace themselves for a substantial increase again in 2011. It is for this reason that FTA recommends that Government freeze the expected toll increase for 2011.

7. It is clearly understandable that business in South Wales has been vocal in its concern over this issue. Like the rest of the UK, Wales has also been affected by the economic downturn, therefore it is imperative that this regional economy is not further disadvantaged as a result of high, inflexible infrastructure charges which competitors based in the rest of the UK do not necessarily have to consider when they tender for business. After all, the need for local companies to tender effectively for business was, of course, a major factor in the previous Government deciding that the tolls on the Humber Bridge should be frozen.

BACKGROUND

8. In 1990, the then Secretary of State for Transport announced that John Laing Ltd with GTM-Entrepose were successful in their bid to design, build and finance the Second Crossing. Additionally, this Partnership would take-over the maintenance and operation of the existing Severn Bridge. The agreement was formally signed between the Government and Severn River Crossing Plc—a Company formed by Laing and GTM with Bank of America and Barclays de Zoete Wedd in October 1990.

9. The “Severn Bridges Act 1992” finally received Royal Assent on 13 February 1992 and on 6 March 1992 the Secretary of State signed the Order setting the starting date of the Concession as 26 April 1992. On that day Severn River Crossing Plc took over both the Operation and Maintenance of the present Bridge and the organising of the construction of the new Bridge. The finance arranged by the Company covers the costs of construction for the new Bridge and pays for the outstanding debt on the present Bridge. To meet its financial obligations, the Company has only one source of income: the Toll revenue. The Second Severn Crossing was opened on 5 June 1996 by His Royal Highness, The Prince of Wales.

10. The Concession period is set at a maximum of 30 years. The actual end date of the Concession will be achieved when the Company has collected a fixed sum of money from tolls valued at £995,830,000 at 1989 prices. Toll levels were set for three categories of vehicles by the promoters Laing-GTM at the time of tender. These toll levels—set in 1989 terms—were written into the Concession and are now embodied in the Severn Bridges Act 1992. Toll levels are amended each year based upon the increase in the Retail Price Index.

TOLLS

11. Currently, tolls are set at the following rate:

Category I	Cars & Motor Caravans	£5.50—10p increase on 2009
Category II	Small Goods Vehicles and Small Buses	£10.90—unchanged
Category III	Heavy Goods Vehicles and Buses	£16.40—10p increase on 2009

12. Severn River Crossing Plc presently allows two types of payment, either cash at the toll, manned or unmanned, and the use of a TAG which is an “On Board Unit”. The TAG is an electronic device, which fixes to a vehicle’s windscreen. As you approach the Toll Lane a scanner will read the TAG and, provided your account is in credit, you will be able to drive through. The system will automatically record a journey and debit a prepaid account.

13. The Tag system works in two ways, the first being a seasonal TAG and the second a Trip TAG, both require a deposit of £30.00 per unit and a prepaid account.

14. **Seasonal TAG**—A set period is purchased, such as a calendar month or quarter, which will give the purchaser unlimited crossings. The price is fixed for the period no matter how many journeys are made. The cost of this service depends on the category of vehicle a purchaser intends to use:

Category 1—Motor Cars & Motor Caravans up to nine seats—£96.80 per calendar month per vehicle.

Category 2—Small Goods Vehicle & Small Buses up to 3500Kgs & 17 seats—£191.84 per calendar month per vehicle.

Category 3—Other Goods Vehicle & Buses from 3500Kgs & 18 Seats or more—£324.72 per calendar month per vehicle.

Trip TAG—Tolls are levied at the standard rate dependant on the category of vehicle per trip, there are no reductions in cost for frequent users. There is a £30.00 deposit on each TAG required.

15. FTA believes that the payment methods used by Severn River Crossing Plc are not flexible enough, especially given the technology available in 2010. This year it was announced that credit cards would be allowed as a payment method for crossing the bridge, but still people cannot pay by credit card, debit card or online. Further, they cannot travel off peak and there are no concessions for those who live locally. Additionally, there are no reductions for frequent users or environmentally-cleaner vehicles. Many FTA members pay tens of thousands of pounds per month just to cross back into Wales having done business in England. This is a cost which, in most cases, comes off the bottom line.

16. Taken as an example alongside other UK tolled infrastructure it becomes increasingly clear that users of the Severn Bridge are paying considerably more for the benefit than elsewhere in the country. Below is a list of tolled infrastructure, as part of this comparison FTA has concentrated on vans and HGVs and highlighted any flexibility available in the pricing structures:

17. Dartford —	06:00–22:00 hrs		22:00–06:00 hrs	
	Standard Dart—TAG		Standard Dart—TAG	
2 Axle Goods vehicle	£2.00	£1.75	Free	Free
Multi-axle Goods vehicle	£3.70	£3.20	Free	Free

18. The Thames crossing between Dartford and Thurrock consists of two tunnels and the Queen Elizabeth II Bridge, forms a vital link in the M25 and is one of Europe’s most heavily used bridges. Exemptions from payment include vehicles already exempt from paying Vehicle Excise Duty on the grounds of disability, and a local residence discount scheme which after an annual registration of £10.00 allows 50 free trips per year and a 20p charge annually thereafter. Users of the TAG system can benefit from a reduction in the standard price as seen above.

19. **Mersey Tunnel**—HGVs over 3500kgs gross vehicle weight, with four or more axles £5.60 or, with a “Fast TAG”, £5.00.

20. **Tamar Bridge**—HGVs with four or more axles and towing a trailer, £16.40 or £8.20 with a TAG, three axle HGVs are considerably cheaper at £12.00 or £6.00 with a TAG.

21. **Tyne Tunnel**—Cars or light vans not exceeding 3500kgs are £1.20 or £1.08 with a Tyne Tunnel Permit, whilst vehicles greater than 3500kgs, are £1.50 or £1.35 with a Tyne Tunnel Permit.

22. **M6 Midlands Expressway**—rates vary dependant on working day, weekend or night time travel. However, the most expensive rate is for an HGV during working hours, at £10.00.

23. In Scotland it should be noted that the **Erskine Bridge, Forth Road Crossing, Skye Bridge and Tay Road Bridge** are all free of charge.

24. Humber Bridge	One Trip Reduced	Twenty	Trip Cost
Cars and Goods vehicles not exceeding 3.5 tonnes	£2.70	£48.60 –	£2.43
Goods Vehicles exceeding 3.5 tonnes up to 7.5 tonnes	£4.90	£88.20 –	£4.41
Goods vehicles exceeding 7.5 tonnes with 2 axles	£10.90	£196.20 –	£9.81
Goods vehicles exceeding 7.5 tonnes with 3 axles	£14.60	£262.80 –	£13.14
Goods vehicles exceeding 7.5 tonnes—4 or more axles	£18.30	£329.40 –	£16.47

25. The Humber Bridge Board has 22 members. They were appointed by and represent the local authorities on each side of the River Humber, namely, Kingston-Upon-Hull City Council, East Riding of Yorkshire Council, North Lincolnshire Council and Lincolnshire County Council. Exemptions are limited to blue badge holders. However, frequent users can benefit from a reduction in the standard cost when they purchase a book of 20 tickets.

26. Compared with the Severn Bridge, the Humber does look like it offers less of a deal for HGVs with a charge of £18.30 applicable on an HGV with four axles and exceeding 7.5 tonnes. In general, though, because of the number of axles involved this higher cost is only likely to affect vehicles with a gross weight of 30 tonnes or more. Consequently, all other tolls are significantly cheaper than the Severn Crossings, which has a cost of £16.40 for all HGVs above 3.5 tonnes. The Humber is considerably less for vans at a rate of £4.90 compared with £10.90 on the Severn.

27. FTA believes that the important factor when comparing the Humber and the Severn crossing is Government reasoning behind freezing the Humber tolls back in 2009 and awarding a £6 million pound grant to help cover costs. Mr Sadiq Khan MP, the then UK Transport Minister, said: “The government is committed to doing everything it can to protect communities and businesses from economic downturn, and help the country recover. That is why I recently decided not to accept the Humber Bridge board’s proposed toll increase.” FTA welcomed this news and supported the previous Government’s decision; however, our members were concerned and puzzled that Wales and the Severn Crossing were being excluded from this common-sense way of thinking, especially when jobs were being lost at an alarming rate due to a recession which did not discriminate by region.

28. Using the examples above, which all represent important links in the UK trade route network, it becomes clear that the Severn Crossing tolling regime does not offer anywhere near the range of payment options which are present across the rest of the UK. FTA understands that infrastructure under the control of local authority or government does allow for a degree of flexibility, as seen in the recent Humber Bridge price freeze. However, this clearly does not seem to be the case with Severn Crossing Plc where Ministers in Cardiff and at Westminster refer constantly to the inability for change.

29. An example of this is highlighted in a response made by the Parliamentary Under—Secretary for State for Transport, Norman Baker MP, to Jessica Morden MP, in a short debate at the House of Commons on the Severn Bridge Tolls.¹ The Minister commented that “the Secretary of State does not have the authority to set the annual tolls below the level of RPI increase without the concessionaire’s agreement. The concessionaire would not be able to agree to anything that would affect their net revenue without compensation and agreement from their shareholders and lenders,”

30. Given the statement above which clearly indicates how all benefits seem to rest with the Concessionaire we strongly believe that there needs to be a review regarding the way future tolled infrastructure builds are administered in the UK. We would recommend that a UK wide infrastructure tolling criteria should be developed which would give government the flexibility to involve themselves in the decision making process (should that be required), at any time during the life of any tolled infrastructure, something that the “Severn Bridges Act 1992” does not currently allow.

IMPACT ON THE WELSH ECONOMY

31. FTA is not aware at the time of writing of any published paper which specifically concentrates on the impact of tolls on the Welsh economy. FTA and its members believe that carrying out a study into the effects of the toll on the economy is now a priority. The Association believe that this type of study be incorporated in all future agreements where the methodology for setting the toll price results in user costs increasing annually irrespective of the economic conditions. To that end, it is welcome news that the Welsh Assembly Governments Minister for Economy and Transport, Ieuan Wyn Jones, has agreed that a study into the tolls will be undertaken by the Welsh Assembly Government in the autumn.

32. FTA will be meeting with the Welsh Assembly Government in September in an attempt to fully understand the remit of the study and to ensure that the logistics industry is fully represented. FTA is currently carrying out a study of its own membership based on both sides of the bridge to fully understand the extent of this impact. However, we are aware of three transport companies based in Wales who regularly use the bridge and currently pay in excess of £250,000 annually between them.

THE BRIDGE IN PUBLIC OWNERSHIP

33. FTA realises that in the UK tolls are generally levied for large infrastructure projects such as bridges and tunnels. We also recognise the fact that these large infrastructure projects would in some cases not go ahead unless there was a way of attracting the necessary finance. Consequently, it is inevitable that some structures would not have been built without the providers being guaranteed a reliable revenue stream or concessions being put in place to encourage private investment and, like Severn River Crossing Plc, these companies have a duty to ensure that the business remains profitable.

34. Originally it was anticipated that the bridge would revert back to public ownership in 2014, but because of a change in taxation rules the concession is now expected to end in 2017. After this date it is proposed that a “maintenance fund” would be adopted for a period of time to ensure the integrity of the bridge is maintained, additionally the fund would allow Government to recoup some of the money already spent on major repairs on the Severn Crossing.

35. FTA understands that once back in public ownership the integrity of the Crossing must be maintained. The revenue for this should rightly come from the user. However, this period also affords Government the ideal opportunity to introduce the flexibilities to the pricing structure already inherent at other tolled sites. FTA believes that users should benefit from lower rates for off-peak or overnight use, reduced rates for frequent users, and reduced rates for environmentally-friendly vehicles. The standard charges should be reduced to a rate which finances the costs of the crossing, with Government resisting the temptation of looking to cash in from revenue from unrelated artificially high charges.

36. However, in the case of the Severn crossings, FTA feels that little or no consideration is being given to the business/local communities that have come to rely on, albeit at a high price tag, the convenience of being able to use the bridge. We respect the argument that there is an alternative to using the bridge; but this infrastructure was built to provide an expeditious transit route into South Wales and southern England for the benefit of all road users, regional/business communities, and to engender a greener environment through reduced vehicle emissions and a reduction in the impact of high volumes of traffic on local communities. We maintain that this reasoning is still valid and high toll costs should not negate the benefits of any major UK infrastructure by pricing vehicles off important trade routes.

37. FTA believes that introducing year-on-year price increases where the impact goes unmonitored is an incorrect policy. Government should regulate to ensure that all tolled structures are introduced against robust criteria, providing the flexibility for Government to intervene to introduce appropriate amendments where necessary.

September 2010

¹ Hansard reference—23 June 2010—Vol No 512, Part No 20, column 126wh.

Written evidence from Glenside Commercials Ltd

As a business owner, with depots in Caerphilly, Avonmouth, Portsmouth and Croydon, I welcome the inquiry by the Welsh Affairs Committee into the Severn Crossing Tolls and in particular:

- The impact of the tolls on the Welsh economy.
- The current level of toll prices and the costs associated with ongoing maintenance.
- The future of the bridges after the crossings revert back to public ownership.

INTRODUCTION

1. My company, Glenside Commercials Limited is based in Caerphilly in South Wales. We have been in business since July 1993. We are a member of the Freight Transport Association and I am Vice Chair of the Welsh Freight Council. Our business is in the service and maintenance of commercial vehicles and the maintenance and repair of transport refrigeration units. The company employs 70 people, 30 of whom are mobile refrigeration engineers who work on transport refrigeration units for customers across South Wales and the south of England.

2. We carry out work for the large supermarket groups—Tesco, Sainsbury, Asda, Waitrose and Marks and Spencer as well as other smaller companies. We have workshops in Avonmouth, Portsmouth, Reading and Croydon and obviously need to visit them on a regular basis.

3. All the fridge engineers' vans and management vehicles have electronic TAGS which are supplied by Severn River Crossing plc (SRC) and for which we pay a deposit of £30 per TAG, this is refundable should the TAG be returned. The TAG does not afford any discount off the toll price, but enables the vehicles to avoid the congestion at the toll plaza by joining the "TAG Only" queues. A pre-requisite of obtaining a TAG is the setting up of a prefunded account with Severn River Crossing PLC; this account is then topped up each month via a Direct Debit from our bank account.

At present the tolls are:

Class I Cars and Motor Caravans	£5.50
Class II Small goods vehicles and small buses	£10.90
Class III Heavy goods vehicles and buses	£16.40

IMPACT ON THE WELSH ECONOMY

4. The road network is currently the main method of moving freight and providing services between Wales and the rest of the UK. From meetings with transport companies and FTA members, it has become clear that the cost of the tolls has really impacted on their businesses. For hauliers especially, due to the way loads are priced, they have no way of including the cost of the toll into the price they charge their customers. One local company, with a large fleet of vehicles pays out each year over £200,000 in tolls—this figure comes straight off their bottom line. The amount that my company pays in tolls are small by comparison, but still amount to between £6,000 and £7,000 each year.

5. Following the announcement of a £6 million grant to the Humber Bridge Board by the former Transport Minister towards the end of last year, I started a campaign to try and get a reduction in the tolls for the users of the Severn crossings. The Minister said at the time of the announcement that "The Government is committed to doing everything it can to protect communities and business from economic downturn and to help the country recover, that is why I recently decided not to accept the Humber Bridge Board's proposed toll increases". I would suggest that the recession does not discriminate; it hit Wales hard too and is still being felt today.

6. I was told by the Welsh Assembly Government that the tolls were "not a devolved issue" and to speak to Westminster Government. The Transport Minister said that the tolls were subject to an Act of Parliament and there was nothing he could do. When you consider the economic climate, I feel that it is important any costs inflicted on business by Government, for whatever reason, should be looked at very carefully. I doubt when the tolls were set originally, that anyone involved ever expected the Severn tolls to become the highest tolls on any road in the UK. Given the way the tolls are calculated, it seems highly likely that we will have another increase in 2011.

7. It is not only established businesses that are affected. The tolls impact on commuters, local communities, families, students and tourists and are a cost to be taken into consideration by any company looking to relocate or set up business in Wales

TOLLS

8. The present tolls are the highest in the UK. The system is inflexible, the price is fixed. There is no discount for frequent users or local residents as is the case with the Humber tolls. There is no tariff for off-peak users, or owners of more environmentally friendly vehicles, which we are constantly urged to strive toward at a great cost. There is no attempt to ease congestion by allowing toll free periods like the Dartford

crossing which is free between the hours of 22.00—06.00. There is still a “Cash Only” policy which is ludicrous in this day and age, when you can travel from the South of France to Wales without using cash, until you come to pay the toll to cross the Severn.

9. The concession period for SRC was set for a maximum of 30 years and the actual end date will come when SRC has collected a sum of money from the tolls valued at £995,830,000 at 1989 prices. The way the tolls are calculated is based on the increase in the Retail Price index from March 1989 compared with September of the year prior to the January increase set by the Secretary of State.

PUBLIC OWNERSHIP

10. It was thought that the bridges would revert to public ownership in 2014, but, due to changes in taxation, the end date is now put at sometime in 2017. Once the concession period is over, the Severn Bridge Act 1992 allows for a period of tolling by the Secretary of State, to make sure that the bridges are properly maintained and additionally, allow the Government to recoup the money already spent on major works to the cables etc.

11. It is important that the upkeep of the bridges is maintained and because of this there will always be a toll to be paid by those who use the crossings. However, this would be the perfect opportunity for the Government to set some flexibility in the tolling charges and accept that the tolls are there to cover the cost of maintenance and resist the temptation to raise revenue by continuing with a high charge.

12. I fully appreciate that SRC is in business to make a profit for its' shareholders and that the revenue from the tolls are their only source of income. However, it seems to me in return for their profits, SRC give no consideration whatsoever to the users who rely on the crossings and pay a high price for doing so.

13. The M4 motorway is of great importance to the economy of Wales and it is surely wrong for those who use this road, whether to get their goods to markets in the UK or Europe, go to work, get an education or visit relatives, to have to pay such a high charge to cross the Severn estuary.

September 2010

Written evidence from Monmouthshire County Council

- Monmouthshire County is the first County in Wales accessed via both river crossings of the M4/M48 and as such relies on the bridges for its access to markets and services in the south and south west of England.
- The M4 is the primary route for commerce from the southern part of England through Wales to Ireland which passes through the county.
- Monmouthshire County is reliant for its economic future on the access provided by the bridges.
- The tolls on the bridges are a deterrent to businesses setting up in this part of Wales.
- The tolls are a deterrent to companies retaining their activities in Monmouthshire.
- The tolls can have a negative effect on tourism in the county especially the Wye valley but closure and disruption to free flow of traffic and the consequential publicity are also a detriment to tourism.
- There is concern that the cost of repairs of the first Severn Crossing may force its closure.

1. IMPACT OF THE TOLLS ON THE WELSH ECONOMY INCLUDING BUSINESSES, LOCAL RESIDENTS AND TOURISTS

1.1 Tolling has been in place for so long that the local economy has learnt to live with it. Whilst there is little published research on the impact of tolls at a local level, the views expressed reflect the feedback that the Council receives from those businesses and residents who use the bridges on a regular basis and are consequently most affected by the tolling regime.

1.2 Business

1.2.1 Monmouthshire County Council has held various events and meetings with local businesses to ascertain the views of local business on a range of matters. Those businesses reliant on the bridges for their operations have reported that tolls are of major concern, the results of which have to be built into cost base calculations. This added cost makes it more difficult for Welsh producers to be competitive. The tolls are effectively an additional tax on companies doing business in Wales, and without that cost, Welsh goods exported to the south and south west of England would be more competitive.

1.2.2 Recently, Tesco announced that they are to relocate their warehouse facility from Newhouse Park Chepstow to Bristol. Press reports on the relocation do not mention tolls as a determining factor. However the facility serves Wales and the south and south west of England and with more stores in the south and south west of England than in south Wales, tolls must have been a contributory factor. Whilst the move in itself is only approximately 10 miles from the existing facility, the consequences of that move mean that employees living in Monmouthshire will need to travel over the bridge from Chepstow incurring a £5.50 per day toll charge. With average weekly workplace earnings in Monmouthshire being significantly lower than

the national average (Monmouthshire £403.90 compared to GB £490.20), this extra cost puts an added burden on the household incomes of Monmouthshire families reliant on jobs in the Bristol area. Newhouse Park has also seen the loss of other large distribution depots for Littlewoods and Nestle. Tolls were likely to have been a contributory factor in their decision to relocate as well. To date those distribution facilities have not been re-let indicating that whilst strategically ideally placed, there are factors, potentially tolls, which have a negative effect on relocation decisions.

1.2.3 At Magor, industrial development allocated sites Wales 1 and Quaypoint have been difficult to develop with Wales 1 being sluggish despite its great location right on a motorway junction and Quaypoint has not moved at all, even with the access road and roundabout put in at public expense. How much tolls influence these development decisions is unknown due to the complexity of the development process but again tolls must be a contributory factor in company relocation decisions and if that decision is finely balanced, tolls may well be the deciding factor.

1.3 *Local residents*

1.3.1 Monmouthshire has a high level of out migration to work. The only definitive evidence of this is census data which is now nearly 10 years out of date. The Council have been told that those who use the crossings on a daily basis find the tolls a high cost with no reduction—no season ticket for example, so consequently residents need higher wages to work in Bristol etc. Although residents can purchase TAG arrangements, these are only cost effective if the bridge is used every day.

1.3.2 Traffic flows on the A48 through Chepstow are higher than would otherwise be the case due to lorries and other drivers using that route to avoid paying the high tolls on the Severn bridges. This is detrimental to the environment and in particular, air quality on Hardwick Hill, adversely affecting local residents and potentially the tourism appeal of Chepstow.

1.4 *Tourism*

1.4.1 The Council is not aware of any specific survey that has been done on the general impact of tolls on Monmouthshire tourism.

1.4.2 A Tintern tourism related business reported:

“We do not have any fixed evidence as most of our visitors during the holiday season are spontaneous; what we can say with good general knowledge built up over the last two decades and with the continual rise in the Severn Bridge toll that our existing Bristol and South West customer base that visited the Wye Valley as day trips or weekend trips has continually declined, obviously preferring to look for places to visit within their own catchment area and avoiding the toll charges”.

1.4.3 Stories about bridge closures and big delays can be damaging to the tourism sector. Recent closures (for maintenance) of the original Severn Bridge made it more difficult for visitors travelling on the M4 to access the Wye Valley. Businesses in the valley perceive this to have had a direct and significant impact on visitor numbers and spend in the destination. Current reports on the cost of repairs to the first Severn Bridge give rise to speculation that the bridge itself may actually be closed which would have a further serious negative effect on local tourism.

2. CURRENT LEVELS OF TOLLS AND THE AVAILABLE METHODS OF PAYMENT

2.1 Levels of tolls are set out in the Severn Bridges Act 1992 and are adjusted in line with the RPI increase at a minimum rise of 10p per annum. Obviously those using the bridge would like to see tolls reduced as this is an added cost in seeking work in Bristol and the south and south west of England. Commercial organisations find the current toll rate to be at a level that it is a significant deterrent to doing business in Wales.

2.2 Methods of payments need to be revised and the decision to allow credit debit card payments in time for the Ryder Cup is welcomed. This needs to be progressed further to allow electronic payments linked to vehicle registrations, which could be something on the line of London congestion charging methods, to reduce delays at toll booths.

2.3 There is a need to hypothecate tolls to maintenance costs so those paying the tolls can see that tolls relate to the cost of provision rather than being another form of indirect taxation.

3. THE CURRENT CONDITION OF THE BRIDGES AND THE COSTS ASSOCIATED WITH ON-GOING MAINTENANCE

3.1 Both bridges are vital for Wales' economy and need to be kept open. The cost of repairs to first Severn crossing are likely to be very great in the near future, if cables need replacing. In times of great pressures on public expenditure, it is likely that maintenance standards would decline leading to more bridge closures and possible permanent closure of first crossing. The delays or restrictions that congestion, wind or ice can impose on the operation of the bridges have a negative effect on business viability. These delays are unknown and unforeseen but if they happen can have a serious effect on the business through penalties in late delivery etc.

4. FUTURE OF THE BRIDGES AFTER THE CROSSINGS HAVE REVERTED TO PUBLIC OWNERSHIP

4.1 No comment other than the points made above in respect of the importance of road and rail links over and under the Severn to the Welsh economy.

September 2010

Written evidence from National Alliance Against Tolls

SUMMARY

- Tolls have a negative effect on the economy and increase the divide between people and businesses on either side of the crossing.
- Tolls should be removed and the costs of paying off any debts and future maintenance and repair should come from the £50 billion that road users pay in taxes.
- As well as the Severn Crossing tolls, consideration should be given to removal of the other crossing tolls in Wales, and to going ahead with an M4 relief road at Newport on a non-tolled basis.
- As a minimum, we hope that the Committee would call for the Government to finance a thorough and independent study into the effects of removing tolls.

INTRODUCTION

1. The committee are conducting an inquiry into the Severn crossing tolls and have said that they will examine:

- the impact of the tolls on the Welsh economy including businesses, local residents and tourists;
- the current level of toll prices and the available methods of payment;
- the current condition of the bridges and the costs associated with ongoing maintenance; and
- the future of the bridges after the crossings have reverted to public ownership.

2. The committee have invited comments and this is the submission of the National Alliance Against Tolls which is a loose alliance formed in 2004 by local groups protesting against tolls in England, Scotland and Wales. We don't have a formal organisation as a company, charity or anything else. We do not seek funds from anyone or any organisation.

3. The group in Wales that formed part of our alliance in 2004 is the "Campaign Against the Severn Tolls", which was started by a local councillor in Neath.

WHY WE OPPOSE TOLLS IN GENERAL

4. "Tolls" is derived from the Greek word "telos" meaning "tax". They were mentioned as "evil" in Magna Carta. Adam Smith dealt with the issue of tolls in the "... Wealth of Nations" where he said that "Whatever exigency of the state therefore this tax might be intended to supply, that exigency would be chiefly supplied at the expense of the poor, not the rich; at the expense of those who are least able to supply it, not of those who are most able."²

5. At one time there were very many tolled bridges and roads or "turnpikes" in Britain but there was opposition including the Rebecca riots of the 1840s in South Wales. Nearly all these tolls were removed in the late 1800s. Whether you have to pay tolls in any particular area of Britain is now a lottery, which is unfair to those drivers who have to use tolled crossings. As the Government collects about £50 billion a year in taxes on roads use,³ and only spends a small fraction of this on roads, it is wrong for Governments to refuse to pay for an adequate road system or to say that the only choice is a tolled crossing or no crossing.

6. Tolls tend to be regressive. A poor person pays the same toll as a rich person. The driver of a small car pays the same as the driver of a large car.

7. Tolled crossings cast a blight and inhibit economic activity in the areas where they are situated. Businesses where road transport is important will prefer to locate elsewhere, partly because of the reduced numbers of shoppers and tourists but also because of the additional transport costs for some businesses and the extra potential cost to employees of travelling to work. Tolls reduce positive agglomeration benefits and a business located in a tolled area has a smaller economic hinterland than a similar business in a toll free area.

8. Tolls reduce the effective capacity of a road or crossing because they deter use (particularly off-peak) and disrupt a smooth traffic flow because of lane changes at toll points. The actual toll collection also causes delays and queues, and tends to prolong congestion periods as traffic is on the road longer than it would

² An Inquiry into the Nature and Causes of the Wealth of Nations—Book V Chapter I Verse 83.

³ Our evidence to Transport Committee Inquiry into "Taxes and charges on road users"
<http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtran/103/103we16.htm> and
<http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtran/103/103we17.htm>

otherwise be. Electronic tolling might reduce but does not remove these delays, and where there is a mix of cash and electronic tolls than there is an increased risk of accidents and problems caused by the apparent failure of the tags.

9. To the extent that there is a choice, drivers will tend to avoid toll crossings and use other roads. This may mean longer journeys, more fuel consumption, more vehicle emissions and possibly use of less suitable, less safe and more congested roads.

10. Roads are an essential feature of a successful economy and movement on them should not be impeded or discouraged by barriers or tolls.

TOLLS AROUND THE UK

It is appropriate to consider how the tolls on the Severn Crossing fit into the context of tolls elsewhere in the UK before turning to the specific points that the committee have raised.

11. The first thing to note is that there are no tolls at all in Northern Ireland or Scotland.

12. When our alliance was formed there were four tolls in Scotland. One of our alliance's original members was Skye and Kyle Against Tolls who had been formed when the Skye bridge opened in 1995. Apart from the campaigning by SKAT (during which 130 people received criminal convictions and their secretary was gaoled numerous times), there were other factors which eventually led to the tolls removal at the end of 2004, including the support of local politicians.

13. The tolls on the Clyde bridge at Erskine were removed in March 2006. There had of course been campaigning by us, but a more significant factor in their removal was probably the strong opposition to tolls by the Councils on the South bank. It was also widely believed that there had been a private deal between Labour and the Lib Dems whereby the Lib Dems had the Skye tolls removed and Labour then had the Erskine tolls removed.

14. There followed a strong campaign by us and others to get the last two tolls (Forth and Tay bridges) removed. The then Labour/Lib Dem Executive and some of their local councillors were very strongly opposed to the removal of these tolls, and the Executive produced "evidence" to show the dire consequences if the tolls were removed. The removal of the tolls became one of the issues in the Scottish Parliament election in May 2007. The SNP (who had 25 seats in the old Parliament compared with Labour's 50) promised that they would remove all the tolls, and in the event they won one more seat than Labour and formed the next Scottish Government. Perhaps to some people's surprise, the SNP then set about fulfilling their election promise. Legislation was needed and the support for removal of tolls became almost unanimous, with only two MSPs (Greens) voting against it. The last tolls in Scotland were removed on Monday 11 February 2008.

15. In the rest of Britain, as well as the Severn crossings tolls between England and Wales there are three tolled road crossings within Wales and fourteen in England. About half of these crossings are small privately operated tolls. Nearly all the major (over tidal water) crossings are either publicly operated or a concession for a limited period or a "charity". These major crossings are—Severn (concession), Cleddau bridge at Milford Haven (local authority), Dartford crossing (was a concession, is now Government), Humber bridge (local authority), Itchen bridge (local authority), Mersey tunnels (local authority), Tamar bridge (local authority), Tyne tunnel (local authority) and the Clifton bridge (charity).

16. It is sometimes suggested that crossings are tolled because they are "estuarial" and that this somehow makes a difference, though some non estuarial crossings, eg the Thelwell viaduct on the M6, are larger than some estuarial crossings. This justification for tolling also ignores the fact that the vast majority of crossings of tidal water (estuary or sea) are not tolled at all.⁴ You can go round the British coastline starting at the Cleddau bridge and go half way round Britain before you come across the next toll (linking North Shields to Jarrow).

THE IMPACT OF THE TOLLS ON THE WELSH ECONOMY INCLUDING BUSINESSES, LOCAL RESIDENTS AND TOURISTS

17. In the case of businesses the effect of tolls will in most cases will be slight but there are obvious exceptions such as haulage. Though even something that may only be a small part of the direct financial costs of a business will have some effect. For instance when a business is deciding whether to set up in location A which is near to tolls or location B which has no tolls, then a business may well be put off location A by the psychological barrier of the tolls, and the effect that it might have not only on their own transport but on their employees, suppliers and customers.

18. Obviously the economic effect of tolls on people is also negative, but the extent of this will vary according to how often they would have to cross the toll for work and what their income is. In the case of those on lower incomes it will tend to restrict the area in which they might seek work and thus increase the chances of lower paid work or unemployment. Workers will obviously also be affected if their employer is affected by tolls.

19. Tourists are again obviously influenced to some degree by tolls, and most sat-navs and route querying on websites give the option for avoiding tolls. Avoiding tolls in the case of most tolled crossings means avoiding the area.

⁴ List of tidal crossings as per NAAT—<http://notolls.org.uk/cross.htm>

20. There have been few studies of the economic impact of tolls, and as far as we know there have been no studies on the impact within Wales. We are aware that Mike German AM as he left the Welsh Assembly at the end of June put down a motion which called on the Welsh Assembly Government to:

- (a) undertake an economic impact assessment of the effect of the Severn bridges tolls on the south Wales economy; and
- (b) make further representations to the UK Government on the negative impact of the tolls, and to prepare the case for supporting the withdrawal of tolls when the bridges revert to public ownership.”

Unfortunately the motion was defeated by 29 votes to 16, and an amended motion was passed which meant nothing.⁵

21. One of the earliest tolls impact studies (2002), and the only academic one that we are aware of was by Napier University on the Skye bridge tolls and was commissioned by the Highland Council. The conclusions of the report included—

- “1. Although the Bridge has been of benefit to Skye, the high levels of the toll have considerably reduced its potential positive impact upon the local economy.
2. There is considerable local resentment to the tolls, particularly among businesses who report that tourists, particularly short stay visitors and coach parties, have been deterred from crossing the bridge.
3. There would be likely gains from removing or reducing the tolls in terms of diverting existing toll spending, increased tourism, increased business efficiency and more business start-ups.
4. The economic benefits from removing the tolls would be substantial. . .”⁶

22. Also in Scotland there was a study commissioned by West Dunbarton and Renfrewshire Councils on —“The Erskine Bridge and the Regeneration of the River Clyde”. The study concluded that removing the Erskine tolls would “lead to the creation of some 20,000 new jobs”.⁷

23. In England there have been two studies on the impact of the Humber bridge tolls. The first was published in 2004. There was no real attempt made to assess the economic impact of tolling, though the report did say that businesses had been surveyed and that 41% had said that tolls had a negative impact on their business performance. Despite the negative effects, the report recommended—“Retain tolls and continue to increase them”.⁸

24. The second report was commissioned by four local councils from both sides of the river. The report was published in October 2008. To arrive at a figure for the economic impact of tolls, the consultants concentrated on one facet of the negative impact—“agglomeration effects”. In brief “agglomeration” is the theory that an economy operates most efficiently if there is a large market in close contact, without any form of barriers. The consultants calculated this benefit as £21 million a year if the tolls were removed. There was also a benefit to the region of £18 million a year if tolls were not paid. The total undiscounted benefit to the region of removing the tolls now (rather than in 2032 which is the date on which they are otherwise due to be removed) was £1.1 billion.⁹

25. To deal with some questions that followed the publication of the report, a phase 2 report was commissioned, the work was funded by Hull and Humber Chamber of Commerce. The report was published in January 2009, it added to, but did not alter, the conclusions from the first report.¹⁰

THE CURRENT LEVEL OF TOLL PRICES AND THE AVAILABLE METHODS OF PAYMENT

26. In recent years the toll for cars on the Severn crossings has been either the highest or second highest in Britain, even after taking into account that the toll is only payable one way. Currently the cost of a return trip by car on the Severn crossing is £5.50 (the second highest is the Humber at £5.40). For goods vehicles, the categories vary from bridge to bridge, but if the toll for the heaviest vehicles is taken, then the Severn at £16.40 return is not as expensive as the Humber where the highest toll is £36.60 return.

27. Obviously drivers would prefer a lower toll price, though in the case of the Severn Crossing if the toll were to be reduced and the financing of the Crossing was otherwise unchanged, it would mean that drivers would have to pay tolls to the Concessionaire for more years than is currently the case.

⁵ Record of debate and vote on 30 June 2010—<http://www.assemblywales.org/bus-home/bus-chamber/bus-chamber-third-assembly-rop/rop20100630qv.pdf?langoption=3&ttl=The%20Record%20%28PDF%2C%20397KB%29>

⁶ Napier University report -<http://www.napier.ac.uk/randkt/rktcentres/eri/projects/Documents/skyeReport.pdf>

⁷ Council newsletter—www.wdcweb.info/EasySiteWeb/GatewayLink.aspx?allId=23547

⁸ Report for Humber Economic Partnership—<http://www.humberep.co.uk/download/FullReport.PDF>

⁹ Humber Bridge Impact assessment—Final Report—<http://www.northlincs.gov.uk/NR/rdonlyres/68CB05CB-BE3D-40BF-9F96-4C4B63840162/32977/ColinBuchananfullreportOctober2008.pdf>

¹⁰ Humber Bridge Impact Study—Phase 2 Report—<http://www.northlincs.gov.uk/NR/rdonlyres/68CB05CB-BE3D-40BF-9F96-4C4B63840162/34242/HumberBridgeImpactStudyPhase2.pdf>

28. Tolls, however low, will still have a negative impact. Business and tourists will still be aware that there is a toll and don't like paying whatever the price, and any toll payment may still interrupt and delay travel. Businesses will also be aware that a toll that has been substantially reduced, rather than removed, can just as easily be increased.

29. From time to time, politicians have called for a facility to pay tolls on the Severn Crossings by credit and debit cards. In our view this should not be done, the average driver would not use this facility and would more likely be delayed because of those drivers who would pay in this way. It is also likely that because of extra costs to the Concessionaires, they would demand that they be allowed to collect more tolls.

30. At some crossings there have also been suggestions for more automated tolls, going all the way up to "barrierless" tolling. Most automated systems are in fact slower than a manual system, and are generally introduced so that either the number of toll collectors can be reduced or collection made more secure. Mixed systems (eg some drivers use "tag" lanes while other drivers use cash lanes) have the effect of increasing the risk of accidents on the toll approaches. Barrierless systems have the least delaying effect, but they require the cooperation of drivers, and are not suitable unless there is a practical alternative crossing for those drivers without tags.

THE CURRENT CONDITION OF THE BRIDGES AND THE COSTS ASSOCIATED WITH ONGOING MAINTENANCE

31. We have no particular knowledge about the condition of the bridges, but we are of course aware of the problem with corrosion of suspension cables on the older bridge. As we understand it, this is a problem which is being successfully dealt with, and the cost is being met by the Department for Transport under the terms of the concession agreement. Or to be more correct it is temporarily being met by the DfT, as they intend to claw it back from bridge users under the 1992 Severn Bridges Act powers to extend tolls after the concession ends.

32. In our view the costs of ongoing maintenance or repair on any bridge are almost invisible when compared with total public spending or the £50 billion of taxes that the Government derives from the use of motor vehicles.

THE FUTURE OF THE BRIDGES AFTER THE CROSSINGS HAVE REVERTED TO PUBLIC OWNERSHIP

33. Most of the major tolled river crossings in Britain were tolled on the basis that the tolls would only apply for a limited period, usually on the basis of the time that it would take to recoup the cost of constructing the crossing. Such promises have up to now been ignored, and legislation has been passed to prolong the tolls. There are of course some tolls that have been removed but that has been for other reasons.

34. The Severn Crossings are very similar to those at Dartford. In both cases the original crossing was built with public funds. Subsequently the original crossing has been taken over by a concessionaire who undertakes to build a further crossing and is reimbursed for the construction of that, and all the operating costs, by collecting tolls on all the crossings till a certain amount has been reached. At that point all the crossings pass to the Government who, according to similar legislation that applies in the case of both Dartford and Severn, can continue to collect tolls for a limited period. In theory the tolls would then be removed. As there was no longer any legal authority to collect tolls under the Dartford legislation, these tolls were removed and replaced from 1 April 2003 by identical charges using general powers in the Transport Act 2000. The Dartford tolls were increased in 2008.

35. So in summary the position is that the removal (or not) of tolls has in practice nothing to do with the specific legislation that applies to that crossing. However, the point at which the Severn Crossings concession should have ended is we estimate about 2013. This is only an estimate because there seems to be no published figures which show how much the Concessionaire has so far collected in tolls.

36. There are a couple of complications, the first of which is VAT. Due to a European Court ruling in 2000, VAT was charged on the Severn tolls from February 2003. MPs were told that this would have no effect on bridge users. Potentially this could have been so, as it might have been possible to return the VAT in some way, but in practice the Treasury keeps the VAT, which in the period from 2003 till the tolls end is likely to be over £100 million. To allow for the VAT, the amount of tolls that the concessionaire could collect was increased from £977 million to £996 million (both in July 1989 prices). The difference of £29 million at current prices is about £50 million. It is not clear why this is less than the £100 million VAT.

37. One possible reason for the above discrepancy is the second complication—there was a refinancing of the PFI scheme. In recent years there has been a practice that refinancing gains are shared between the PFI contractor and the public authority. In 2004 the then Chief Secretary to the Treasury gave information to MPs about these refinancings including the Severn crossing deal. We queried the figures and were passed between the DfT, the Treasury, Partnerships UK and the Highways Agency. We were eventually told that no one took responsibility for the figures but that they seemed to be wrong. We raised this with the Public Accounts Committee in 2006 who in turn raised it with the National Audit Office, but the NAO told the PAC that they were satisfied that either there was nothing wrong or that any error would not be repeated. The conclusion that we have now come to is that the refinancing gain was used to reduce the additional amount that the Concessionaire could collect in tolls. The net effect of the loss of VAT being kept by the Treasury offset by the refinancing gain is that bridge users will have to pay tolls to the Concessionaire for just under a year longer.

38. Once the tolls payable to the Concessionaire ends, the DfT can continue to collect tolls for themselves for up to five years longer. It has been said by the DfT that this is to build up a “maintenance fund”, though the purposes which are listed under Schedule 4 of the Severn Bridges Act 1992 in our opinion do not explicitly or implicitly cover such expenditure. Nor is there any reason why the users of a crossing should be expected to pay further tolls for such a purpose. Having said that, as already stated, using Transport Act 2000 powers the Government can put any toll that they like on the Severn Crossings or any other trunk road.

OTHER ISSUES

39. The committee’s call for evidence does not mention the social impact of tolls. To the extent that families and friends are situated on either side of the toll barrier, their interaction will obviously be reduced. In the particular case of the Severn Crossings, it is possible that tolling also makes the other side seem more like a foreign country.

40. The committee also do not mention the other tolled vehicle crossings within Wales—Cleddau, Pont Briwet and Penmaenpool. There is also a tolled crossing for pedestrians and cyclists only at Barmouth.

41. There is also the issue of the toll that nearly was—the new road that was announced in December 2004 and was intended to relieve congestion on the M4 near Newport. In July 2009 the Deputy First Minister announced that the plan would be abandoned. He said:

“The business case demonstrates that tolling the new M4, while other routes remain free to use, would significantly reduce the economic, environmental and social benefits of the project. The tolling of the new M4 alone would not raise the funds necessary for the scheme, and tolling both roads, in addition to the toll on the Severn crossings, would damage the attractiveness of south Wales as a location for investment.”¹¹

September 2010

Written evidence from Rail Freight Group

EXECUTIVE SUMMARY

- The Rail Freight Group is pleased to submit this evidence on behalf of the UK rail freight industry.
- We explain the rail freight capability of the existing Severn Crossings and review the most recent relevant reports from Westminster and the National Assembly for Wales.
- We note recent and potential increases in rail freight volumes and the environmental benefits of rail compared to road.
- We comment on the existing level of road tolls for the Severn Crossing and the future issues surrounding the level of the Tolls.
- We recommend that the road tolls should be maintained at existing levels and any profits so generated in the future should be allocated to funding improvements in rail freight capability across the Severn Estuary with consequent environmental benefits.
- We note that reducing or removing the road tolls will lead to increased road haulage with consequent adverse effects.
- Finally we outline the benefits of our proposal and how a “virtuous circle” of increasing modal shift would generate even more funding for rail freight capability.

INTRODUCTION

1. The Rail Freight Group (RFG) is the representative body for the UK rail freight industry. Our objective is to grow the volume of goods moved by rail in a cost effective way. We work to influence Government and transport policies in support of rail freight and to help our members to develop their rail freight services and therefore welcome this opportunity to submit evidence to the Welsh Affairs Select Committee Inquiry into the Severn Crossing Toll.

2. In submitting this evidence RFG has restricted its comments to issues that impact on the movement of rail freight across the Severn Estuary. We have not commented on other areas of the inquiry which are outwith our scope.

¹¹ Statement on 15 July 2009 by Deputy First Minister on the National Transport Plan <http://wales.gov.uk/about/cabinet/cabinetstatements/2009/090715ntp/?lang=en>

RAIL FREIGHT AND THE SEVERN CROSSING

3. Rail freight between South Wales and England and vice-versa can travel either via the existing Severn Tunnel or via Gloucester. The Severn Tunnel is heavily used by passenger traffic in the daytime and is restricted in the size of the traffic that can pass through it (the “loading gauge”), although there is no restriction in the axle weights that can be accommodated (the “route availability”). From Gloucester rail freight has good access to the Midlands but access to London and the South East is via the restricted infrastructure of the line to Swindon via Kemble.

4. The previous Government announced plans to electrify the South Wales Main Line through the Severn Tunnel by 2017, which should mean an improved loading gauge is available through the tunnel as well as providing the capability for electric haulage of freight trains. This scheme currently forms part of the present Government’s Spending Review, but RFG hopes it will proceed in view of the clear benefits.

5. RFG notes that in its July 2009 report on cross border transport the Welsh Affairs Committee concluded that in the longer term there is a need for a second Severn rail crossing, although evidence submitted by DfT indicated the existing Severn Tunnel has the capacity to cater for forecast increases in demand over the next 20 years.

6. RFG also notes that in its January 2010 report on Future Railway Infrastructure in Wales, the National Assembly for Wales’ Enterprise and Learning Committee recommended the Severn Tunnel should be adopted for electrification and Network Rail commissioned to consider options for renewing the Tunnel in the longer term linked to the business case for a new High Speed Line from London to South Wales. (Recommendation 5). Later, as part of Recommendation 16, the Committee commends a higher priority and more resources be allocated to encouraging modal shift of freight from road to rail.

7. Demand for rail freight is growing year on year and there has been particular growth in intermodal flows, both to/from the deep-sea ports and also of domestic traffic, for example for the major supermarkets. Growth of rail freight traffic to/from South Wales is constrained by the present limitations of the Severn Tunnel, but Port developments on both sides of the Estuary will lead to increased demand for movement.

8. Rail freight can make a significant contribution to reducing emissions from inland movements. For example, rail freight produces around 15 grams/tonne km of CO₂; whilst the equivalent number for HGVs is around 180 grams/tonne km (reference : DfT website at http://www.dft.gov.uk/stellent/groups/dft_foi/documents/page/dft_foi_612027.pdf). Comparable data also shows rail freight delivers far lower levels of other pollutants such as CO, NO_x, and VOCs.

IMPACT OF THE ROAD TOLLS AND THEIR CURRENT LEVELS

9. Tolls have been payable for the Severn Crossing since the first road bridge was opened in 1966. As such they are a recognised feature of the transport infrastructure in the region and developments in both South Wales and the Bristol area have proceeded on the basis they will continue, although there is an assumption the level of charges will remain reasonable.

10. RFG understands the issues regarding the continuance of the tolls once the bridges revert to public ownership in terms of capital repayment and ongoing maintenance, and that many will argue a reduction in the level of tolls should be implemented.

FUTURE LEVEL OF ROAD TOLLS AND THEIR ALLOCATION

11. RFG wishes to suggest that instead of being reduced, road tolls should be maintained at current levels (in line with existing expectations) and the extra revenue/profits generated should be predicated towards funding improved rail freight capability across the Severn Estuary, either through electrification, capacity and gauge enhancements of the existing Severn Tunnel or the construction of a second rail Crossing.

12. Improved rail freight capability on the Severn Crossing will support and encourage modal shift from road to rail and consequently will bring the additional benefits of reducing carbon emissions as well as both the congestion and the damage caused by HGVs on the existing road Crossings, further reducing ongoing maintenance costs.

13. Conversely, reducing or removing the tolls will have a detrimental effect on rail freight by providing an immediate competitive advantage to road haulage. As a result rail freight’s market share is likely to be eroded with consequent increases in carbon emissions, road congestion and the maintenance required of the road Crossings.

CONCLUSION

14. RFG recognises the importance of road freight to the UK economy and does not support steps that adversely impact on its costs. However, it believes that in the case of the Severn Crossing there is a powerful argument that maintaining existing costs, which have long been built into the industry's financial calculations, can provide a revenue stream that improves rail freight capability, encourages modal shift with consequent reductions in carbon emissions and reduces the impact of heavy freight vehicles which in turn will generate more revenue to support increased rail freight.

August 2010

Written evidence from the Department for Transport

INTRODUCTION

1. The Department for Transport welcomes the Committee's interest in the Severn River Crossing Tolls.
2. This Memorandum is submitted by the Department for Transport and follows the structure of the Committee's questions contained in the press notice announcing the inquiry.

THE IMPACT OF THE TOLLS ON THE WELSH ECONOMY INCLUDING BUSINESSES, LOCAL RESIDENTS AND TOURISTS

3. The Severn Crossings provide a key transportation link supporting the local economies of England and Wales. Around 13 million toll paying vehicles use the crossings westbound per annum.
4. Prior to the construction of the Severn Crossings, drivers travelling to Chepstow from the south of England would have used the A40 and A48 adding an additional 50 miles on today's journey via the crossings. With rising fuel costs it is more viable to use the Severn Crossings than making the 50 mile detour using the A48 to avoid paying the westbound toll.
5. Currently we have seen no evidence that tolling is a disincentive to industrial investment in South Wales. Indeed the new Severn Crossing has greatly improved the transport links into Wales which is likely to have supported business investment in Wales and in particular South Wales.
6. At a recent debate on the Severn Crossings, Transport Minister, Norman Baker MP said he would consider any evidence presented on the effects of the tolls on the Welsh economy.

THE CURRENT LEVEL OF TOLL PRICES AND THE AVAILABLE METHODS OF PAYMENT

7. The tolls are in place to repay the construction and financing costs of the second Severn Crossing, the remaining debt for the existing crossing from 1992 and to maintain and operate both crossings.
8. The toll levels are set for three categories of vehicles and are embodied in the Severn Bridges Act 1992. This Act sets out the tolling arrangements and the basis for yearly increases in the toll rates. The new rates are introduced on 1 January each year and are increased in line with the retail price index using a formula and rounded to the nearest 10p.
9. Tolls are charged in a westbound direction only. The current toll prices are: £5.50 for cars, £10.90 for vans and £16.40 for vehicles over 3.5 tonnes.
10. Any discounts or exemptions are a matter for the Concessionaire, Severn River Crossing Plc (SRC), to decide, providing they comply with existing legislation. Discounts of around 20% for regular and frequent users are offered by way of a season TAG. Blue badge holders and the emergency services are exempt.
11. Previously the Severn Bridge Regulations 1996 stipulated that all tolls leviable at the Severn Crossings shall be paid in cash or using a pre-payment agreement (TAG). In March this year an amendment was made to the Regulations to allow card payments to be accepted at the tolls.
12. There are associated costs with the introduction of card payments, mainly the bank transaction charges. These are estimated to be between £7 million–£10 million to the end of the concession; approximately £1 million per year depending on usage. Implementation costs are expected to cost around £1.2 million.
13. Work to amend the tolling software to allow for processing credit/debit card payments has started and discussions are ongoing with the Concessionaire to resolve the financial issues around the introduction of card payments.
14. The Highways Agency (HA) is working towards implementing a card payment system at the tolls before the Ryder Cup begins in October.

THE CURRENT CONDITION OF THE BRIDGE AND THE COSTS ASSOCIATED WITH ONGOING MAINTENANCE

15. SRC is required to maintain both Severn Crossings in accordance with the Concession Agreement. A rigorous schedule of inspections is carried out and regular review meetings are held between SRC and the HA.

16. A programme of cable inspections on the M48 Severn Bridge (opened in September 1966) began in April 2006 after corrosion was found in the suspension cables of bridges of a similar age and construction in other parts of the world. Significant levels of corrosion were found and a programme of works to tackle corrosion followed.

17. A full dehumidification system has been installed to address the corrosion. The system, which pumps dry air into the cables to reduce humidity, has been operational since December 2008. Reports show humidity levels within the main cable are below the target level of 40% relative humidity. In addition, an acoustic monitoring system has been installed to track the rate and location of any further deterioration. A second round of inspections is currently underway to gain a detailed understanding of the level of corrosion and to verify the success of the dehumidification. This work is due for completion later this year.

18. Existing or latent defects are not covered under the terms of the Concession Agreement. Therefore, any costs associated with existing defects, such as the main cable corrosion work, will be met by the Government. The programme of mitigation and inspection work carried out to tackle corrosion has cost £15 million so far, with the second inspections costing a further £4 million.

THE FUTURE OF THE BRIDGES AFTER THE CROSSINGS HAVE REVERTED TO PUBLIC OWNERSHIP

19. SRC will continue tolling until it receives the defined sum of £995,830,000 (in 1989 prices), subject to a maximum of 30 years. After this time both bridges will be handed over to the Government. The Concession is due to end in the first half of 2017.

20. The Government has the power to continue tolling for up to a further five years following the handover of the crossings to recover its own costs which may have been incurred. This would be for costs that fall outside of the scope of the current Concession eg cost of cable corrosion work.

21. The Concession Agreement sets out the requirements for transfer of the crossings to the Secretary of State at the end of the concession period. SRC is required to carry out any necessary maintenance and repair works on the crossings prior to handover. End of concession planning meetings are held regularly with SRC to ensure handover arrangements are in place when the concession ends.

22. Once the crossings have been handed back to the Secretary of State the cost of future maintenance and repairs will be the responsibility of the Government.

23. No decisions have been made regarding the future of the crossings once the concession expires. The Department is willing to look collectively at what happens after 2017.

September 2010

Written evidence from the Welsh Assembly Government

INTRODUCTION

1. The Welsh Assembly Government welcomes the opportunity to provide evidence to the Welsh Affairs Committee inquiry into the Severn Crossings Toll.

2. The Severn Crossings provide a key link in Wales' transport and economic infrastructure. As part of the strategic M4 corridor, they provide Wales' businesses with access to markets in southern England and, beyond that, mainland Europe.

3. The Welsh Assembly Government has no responsibility for the crossings or the levying of tolls. The management of the bridges and collection of tolls is a matter for the UK Government. However, given their strategic significance to Wales, the Welsh Assembly Government works closely with the UK Government on matters relating to the Severn Crossings and will continue to do so.

LEVEL OF TOLLS

4. The tolling regime for the Severn Crossings is set out in the Severn Bridges Act 1992. Under the Act the tolls increase annually in line with the Retail Prices Index.

5. The concessionaire, Severn River Crossing plc, manages the Crossings and collects the tolls. This funding is to repay the construction and financing costs of the Second Severn Crossing, as well as the remaining debt from the original Severn Bridge and the costs of operating and maintaining both crossings.

METHODS OF PAYMENT

6. Progress is being made to allow users to pay the tolls by credit or debit cards. The UK Government has made the necessary legislation and is in discussions with River Severn Crossings plc to resolve outstanding financial issues. The Welsh Assembly Government welcomes the work undertaken so far towards enabling the use of credit and debit cards, and has urged the UK Government to ensure that the changes are made in time for the start of the Ryder Cup in September.

CONDITION OF BRIDGES AND ASSOCIATED MAINTENANCE COSTS

7. Under the terms of the concession agreement, the concessionaire is legally required to maintain the Crossings to an acceptable standard. When the concession ends, the concessionaire is required to carry out any necessary maintenance and repair works on the Crossings prior to the handover to the UK Government.

FUTURE OF THE BRIDGES

8. The current concession agreement will end when the concessionaire, Severn River Crossing plc, has collected a fixed sum of money from tolls, which is £996 million at 1989 prices or £1.8 billion at today's prices.

9. The current forecast is that this funding requirement will be met in the first half of 2017, at which time the operation of the two Crossings will revert to the UK Government. Under the 1992 Act, the Secretary of State for Transport has the power to continue tolling for a further five years in order to build up a maintenance fund.

IMPACT OF TOLLS

10. The Welsh Assembly Government is taking forward a study to consider the economic impact of the tolls. The study will explore the magnitude of the impact of the tolls in depth, as well as assessing the overall balance of effects on the Welsh economy. It will be an independent study, overseen by the Economic Research Advisory Panel, which will look at all the issues in an impartial and objective way.

11. The study is expected to get underway in the autumn. The timetable for completion will depend on the final scale of the project, particularly if it is necessary to undertake original research, but hopefully some initial results will be available next spring.

12. The Welsh Assembly Government will continue to work closely with the UK Government on the future of the bridges. The study commissioned by the Welsh Assembly Government on the economic impact of the tolls will help to inform these discussions.

September 2010

Supplementary Written evidence from the National Alliance Against Tolls

1. The NAAT have already made a submission to the Committee, this further submission deals with various points that emerged during the Committee's evidence sessions.

THE CONCESSION—VARIATIONS TO IT

2. The original concession for the crossing set a limit of 30 years for collecting tolls. It has been suggested that if the Government has or intends to do anything that would reduce the Severn River Crossing Company's net income stream, then the Company would be allowed to collect the tolls for a longer period. Examples of Government decisions that effect the Company's net income stream are the imposition of VAT in 2003, the increase in VAT from January 2011 and the recent introduction of a facility for payment by credit card.

3. That the Company would be compensated by extending the Concession period, makes no sense for two reasons. One reason is that the Company is likely to meet the income target long before the 30 years in the original concession agreement is reached. The other reason is that extending time means increased costs and risks for the Company.

4. So the way in which the Company are really compensated must be by increasing the amount that they are allowed to collect, ie the amount of tolls (expressed at July 1989 prices) is increased. Collecting more tolls does of course indirectly increase the time that the Concessionaire will be collecting tolls and thus the Concessionaire's costs, but that could be taken into account in arriving at the extra tolls income that the Company will receive and drivers will have to pay.

THE CONCESSION—WHAT HAPPENS WHEN IT ENDS

5. There seems to be an impression that tolling will automatically continue after the end of the Concession to cover ongoing maintenance costs.

6. Under the Act, the Government is only allowed to extend tolls for a limited period and that is only to recover certain costs that it may have incurred during the Concession period—Section 7.1 of the Act says that as soon as “. . . it appears to the Secretary of State that the funding requirement is met on a day on which the power to levy tolls is being exercised by him, no tolls shall be levied by him after that day.” (our emphasis).

7. Under the Act this tolling period could stretch up to 2027 on the original crossing and up to 2031 on the second crossing. It is however unlikely that it would take this long to recover the costs that are allowed in the Act. It is also unlikely that tolls would continue on one crossing after they had ended on the other.

8. Though continued tolling under the Act would no longer be legal, the Government can decide (as the appropriate authority can with any road or crossing) to put charges on the Crossing using Transport Act 2000 powers. Such charges are not related to the cost of maintenance, but can be for any amount. Almost the only use of these powers has been on the Dartford Crossing. When the legal power for normal tolls ceased in 2003, the toll for a car was £1, it is now £1.50 and the Government have recently announced that it will be going up to £2.50 (each way). These tolls are in no way related to maintenance costs.

PROFITS OF THE COMPANY

9. There seems to be an impression that the Company must make a big profit on this scheme. All PFI schemes carry various risks, but Tolloed schemes also carry a risk that the traffic is lower than predicted. Given the nature of the Severn agreement, lower traffic would mean that it will take the Company longer to reach the income target, which means more costs and thus less profits. In the worst case (and most unlikely) scenario, they would not have reached the income target before the 30 years is up.

10. In 2007, the Company actually made a loss before tax of £1 million, in 2008 this became a profit of £1.6 million, and in 2009 a profit of £13.7 million. Of the 2009 profit, the Government took £9.6 million as tax. The Government of course also took in 2009 about another £11.6 million as VAT (which was at 15% in that year), making a total return to the Government in 2009 of over £21 million, so the Government were the main ones profiting from the tolls income. As the VAT in 2009 was at 15% and in 2011 it will be 20%, the Government may make even more money in 2011.

PRIVATE FINANCE INITIATIVE

11. In the evidence session we were asked why we thought that PFI was not a good idea. We said that it would take too long to detail.

12. PFI, which is sometimes referred to as “Public Private Partnership”, was originally introduced by the Conservative Government in the 1990s. From a Government point of view, the main advantage is that it can boast about the hospitals, schools, and roads etc that it is providing without having to fund them in the usual way. They are paid for on a “never never” system, and the expenditure is “off balance sheet”. For PFI schemes that include a significant element of labour for things such as cleaning of buildings, it may also be thought that there is an advantage that labour on lower pay and pensions than is usual in the public sector can be used. Though this latter saving may be wiped out by the higher State benefits payable to those on low pay and low or no pension.

13. These perceived advantages to Government outweigh the disadvantages. PFI schemes are more expensive to develop as they require a legion of highly paid consultants, lawyers, accountants and bankers etc. The schemes also take a lot longer to develop than if it had been decided to proceed on a normal basis, this delay increases the real cost as there is relatively high inflation on construction schemes.

14. PFI schemes are also considerably more expensive to finance. In the initial phase of the scheme, the financing costs can be five times the public sector cost of borrowing. In the later phases after refinancing there is usually a substantial fall in financing cost, but it will still be about double the public sector cost.

15. The use of PFI for a crossing also makes it more likely that the scheme will be tolled. Unless these are “shadow” tolls, this will further increase costs. First of all, the construction cost is higher as far more land and work is needed for the toll plazas and for approach roads. Secondly, the operating costs are higher. In the case of the Severn Crossing, according to what the Company have said, the cost of toll collection and administration is at about the same level as all their costs of maintaining the bridges.

16. Three existing crossings were built using PPP/PFI—

the Skye bridge which opened in 1995;

the “Queen Elizabeth II” bridge which opened in 1991 at the Dartford Crossing; and

the second Severn Crossing which opened in 1996.

17. The Seven Crossing is in some ways similar to the Skye Bridge toll scheme, which was built about the same time as the Second Severn Crossing and which also had the Bank of America providing part of the finance. That scheme in 1997 was the subject of a National Audit Office Investigation¹² and a Public Accounts Committee Report.¹³

18. In 2004 research carried out by Manchester Business School was published by the Certified Accountants—*Evaluating the operation of PFI in roads and hospitals*.¹⁴ It included—“it shows that the Highways Agency was unable to demonstrate (even using the Government’s methodology, which favours private finance over public finance) that these DBFO schemes had lower whole-life costs than conventional procurement. Since the discounting methodology serves to reduce the apparent cost of the DBFO option, this means that the cash cost of DBFO must be very much more than a publicly funded option and that DBFO is a very expensive way of constructing, operating and maintaining roads.”

19. It also said—“. . . our analysis shows that PFI is a very expensive way of financing and delivering public services that must, where public expenditure is constrained, lead to cuts in public services and/or tax rises, that is, a cut in the social wage. In contrast, the chief beneficiaries are the providers of finance and some of, though not necessarily all, the private sector service providers, leading to a redistribution not from the rich to the poor but from the mass of the population to the financial elite. In short, PFI does not pass the accountability test.”

20. Manchester Business School carried out subsequent research on PFI, particularly on roads, including another report published in 2008 by the Institute of Chartered Accountants of Scotland—*Financial Black Holes: Accounting for Privately Financed Roads in the UK*.¹⁵ The report included—“In short, the lack of consistent, comparable and understandable financial information in the context of PFI makes it difficult for public sector stakeholders to understand where public money is going, how it is being used, and the extent of future commitments and liabilities” (Page 202).

CREDIT CARD PAYMENT

21. There is very little demand for such a facility, and it is not available at any other tolled crossing. The Company will have incurred some costs on equipment and training, and there will be ongoing costs in fees to the card companies and in delayed cash flow. This will mean that the amount of tolls the Company can collect will increase and that more tolls will be payable by all drivers.

FREE-FLOW

22. It has been suggested that it would be a good idea if “free-flow” technology possibly using “GPS” was introduced.

23. There is nowhere that uses GPS for tolling. “Free-flow” or barrierless tolling currently uses RFID tags which are read using microwaves. Such systems need to have a camera system using ANPR to try and catch those without valid working tags. In the case of the London Congestion Charge, they don’t have tags and rely completely on the cameras. As well as the tags and the cameras, if there is no practical alternative to the tolled road, there may also have to be a manual system which will increase the accidents as drivers change lanes, these accidents will be more severe than usual as many of the vehicles will be moving at high speed.

24. For a barrierless system to operate effectively there needs to be a very high level of tag use and a very low level of evasion of the system. Singapore has had an “Electronic Road Pricing” system for many years, but few countries will have the same culture of compliance. In the few instances in America where they have gone over to free-flow tolling, there is a high degree of evasion despite drastic fines. As many court systems could not cope with mass prosecutions, the authorities try and deter evasion by punitive fines and taking a few to court. One case in Texas that was reported on the 4 November was of a driver being taken to court for \$44,000.¹⁶

25. If free-flow tolling is introduced in Britain, then in our view it is possible that there will be a situation similar to that with the Community Charge, and the system would soon have to be abandoned.

STUDIES OF THE ECONOMIC IMPACT OF TOLLS

26. Our original submission referred to a few studies, we later became aware of three others.

27. The first is the study that was commissioned by the FSB in March 2009. We heard nothing further on it till it’s report was submitted to the Committee. The study is mainly based on a survey of companies, asking them how significant the tolls were. The conclusion was that the tolls were not significant to most businesses. In our view though the study is useful, it was not a full study of the impact of tolls on the economy.

¹² <http://notolls.org.uk/pdfs/skyenaoreport23may1997.pdf>

¹³ <http://www.publications.parliament.uk/pa/cm199798/cmselect/cmpubacc/348/34802.htm>

¹⁴ http://www.accaglobal.com/pubs/publicinterest/activities/research/research_archive/rr-084-001.pdf full report

¹⁵ http://www.icas.org.uk/site/cms/download/res_shaoul_financial_black_holes_2008.pdf and NAAT019A—Page 202 from ICAS financial black holes report.pdf

¹⁶ http://www.foxtoledo.com/dpps/news/offbeat/texas-man-receives-44000-toll-fine_3638910

28. The second Study is one that has recently been announced by the Welsh Assembly Government. This was a surprise to us, as it was only in June that Mike German failed to get the Assembly to agree to such a study. As we understood it, the study that has now been agreed will be supervised by the Economic Research Advisory Panel. In our view the nature of this panel is such that it is unlikely to arrive at a conclusion that it would be beneficial to remove the tolls.

29. The third Study is one that seems not to have been publicised. It was carried out by AECOM for the DfT and was completed in March this year. The study¹⁷ was on how best to measure the impact of the Humber Bridge tolls, though it went further than this and a model was built.

30. It seems that more work will be undertaken, but in round terms this latest study concluded that the removal of the Humber tolls would induce 1,000,000 extra trips a year and that 400,000 trips that were currently taking alternative routes would instead use the bridge. The overall effect on mileage is that it would reduce by 13,000,000 kilometres. The extra annual benefits to users was assessed at £24 million. There was also a benefit of £1 million from reduced accidents and improved air quality. This benefit to the users and the environment is largely reversed from a government point of view as they would lose the tolls income and get less in fuel taxes.

31. The report said that “Wider (agglomeration) impacts would increase these benefits.” It did not attempt to assess them, but did say that “Recent research by DfT has suggested that wider impacts (agglomeration, imperfect competition, labour market) may constitute between 17% and 44% (with an average of 22%) of conventionally measured benefits. This would equate to between £6 and £14 million per annum on these very basic assumptions.”

TWO WAY TOLLING

32. It has been suggested that tolls could be collected both ways either so that it was not a toll “to enter Wales” or to lower the price (albeit that it would have to be paid twice).

33. The current legislation assumes that there is one way tolling for good reasons. Two way tolling would double collection costs and double the time that vehicles spend queuing to pay tolls. It is also likely that either a new toll plaza and approaches would have to be built or the existing one almost doubled in size.

November 2010

Supplementary Written evidence submitted from the Chartered Institute of Logistics and Transport (UK) Cymru Wales

Our answer to Question 17 given in oral evidence on 17 October was:

Q17 Chair: *That is one of the things that the Committee is looking at. That is a very important question, but you would accept that it is better to have a bridge with a toll than no bridge and no toll, or even one bridge and no toll.*

Chris Yewlett: *There are questions of equity floating around here. The tradition in Britain has been, and still largely is, that motorways and major roads are free of charge-with the exception of the midlands. So there is an argument to say that building the first bridge would not have happened if we hadn't had the toll-especially in the economic circumstances of the time-so we wouldn't have actually had the bridge. We then had the bridge, and it proved inadequate in terms of capacity. This is also true of quite a lot of motorways that parallel the trunk roads around England. Expansion of those motorways-additional lanes and so on-is regarded as part of the day-to-day or year-to-year expenditure of the Department for Transport. Putting a new bridge in Wales could be argued to be an expansion to the existing one. We have paid for the existing one, so why should we have to pay for the expansion when other people do not have to pay for improvements to their roads?*

In order to clarify further point the contrast with the situation pertaining in the English Midlands we would add the following:

In the English Midlands, the Birmingham Northern Relief Road, now known as the “M6 Toll” Road, was built to alleviate severe congestion on the M6 link between the M6/M1 junction in the East and the M5/M6 North-South route in the West. However, tolls were only imposed on the new construction.

Potential users thus retain the option of using the old M6, and enduring any congestion delays arising. In practice, large numbers of users, both light traffic and heavy goods vehicles, elect to take the slower, cheaper option.

An equivalent arrangement for Wales would have been to remove the tolls on the original bridge (now the M48) once the original cost was repaid, whilst introducing a toll on the new bridge. Customers would then be able choose between a faster journey and a more costly one.

¹⁷ <http://www.dft.gov.uk/pgr/roads/statutorytoll/tollreviews/humberbridge/study.pdf>

However, that option was not offered to Wales—indeed, not even a reduction in tolls on the longer, older route. Instead, operation of the two bridges was consolidated, and tolls have been equalized ever since. Wales-England traffic is therefore meeting the costs of capacity expansion on this key route directly, in contrast to (say) Scotland-Wales traffic via M6/M1.

Indeed, there is even a disparity at the European level, regarding through traffic to Ireland. Traffic using the M4 and West Wales ports (Fishguard/Pembroke/Swansea) via key European route E30 is charged a toll, whilst traffic choosing Holyhead via M1/M6/A55 (Euro routes E24/ E22 and links) is not.

November 2010

Supplementary Written evidence from the Department for Transport

I thought it might be helpful to you and your Committee if I provided some clarification on the maintenance arrangements for the Severn Crossings.

As I explained at the hearing, Severn River Crossing (SRC) is required by the Concession Agreement to maintain both crossings. The details of these obligations are included within the Concession Agreement and the Highways Agency monitors these activities to ensure that the Concessionaire is diligent in performing this responsibility.

SRC does not publicise its maintenance costs and there is no obligation upon the company to do so. However, from studying SRC's annual financial statements, it is possible to identify the annual costs of the overall operational and maintenance expenditure. These costs include not just maintenance but also tolling operations, insurance and other head office functions. For the last three years these costs have been £11.1 million (2009), £11.2 million (2008) and £10.9 million (2007).

The Highways Agency has not developed any forecasts for maintenance costs after the concession, but the hand-back requirements of the concession will ensure that the crossings are well maintained by SRC until the concession ends. As with normal procedures, these forecasts will be developed for the next spending review.

In the meantime, I enclose a copy of SRC's Financial Statements for 2009.¹⁸ As required by Section 27 of the Severn Bridges Act, I am laying these accounts before Parliament.

December 2010

¹⁸ Not printed.