



Welsh Affairs Committee

Oral evidence: [the future of the Severn River crossings](#), HC 171

Monday 6 June 2016

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Written evidence from witnesses:

- [Severn River Crossing Plc](#)

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Members present: David T. C. Davies (Chair); Byron Davies; Carolyn Harris; Gerald Jones; Liz Saville Roberts; Mr Mark Williams

Questions 1 – 65

Examination of Witnesses

Witnesses: **Philip Smith**, General Manager, Severn River Crossing Plc, and **James Rawle**, Deputy General Manager, Severn River Crossing Plc, gave evidence.

Q1 Chair: Thank you very much for coming in and giving evidence today on this issue, which is of huge importance to all of us in Wales, and particularly for those of us in south Wales. I know we have had meetings before, but we appreciate the chance to put on record and tease out some of the important details about how the handover is going to happen. Perhaps I could begin by asking you what discussions you have had with the DfT and the Highways Agency on the handover of the bridges?

Philip Smith: Thank you for the invitation here; hopefully we can contribute to your inquiry. We have been working with DfT via a steering group that was set up in early 2015. That steering group involved DfT officials and Highways England and has met three times so far. We have a local liaison group, a transition group, involving Highways England and the Government's representative from DfT and that has been meeting for about a year now. We met the Secretary of State for Transport in December 2015.

Q2 Chair: Are you satisfied with the level of engagement you are having with the Government at the moment? I have detected in the past a feeling that discussions are not taking place quite as often as some people would like. Are you satisfied that every discussion that you need to have is being had at the moment with Government departments?

Philip Smith: I think it is fair to say that both we and, I suspect, DfT and HE hoped we would have made more progress by now. It is problematic at the moment because we seem to be in a position where we are waiting for policy decisions, and until policy decisions are made, there is no progress on the detail of the handover. We are keen at this stage. We see ourselves as a few months from having to reach the main agreements on the handover and those cannot progress until the policy decisions have been resolved.

Q3 Chair: Without wanting to put you in a difficult situation with the Government, would it be fair to say that your view is that the Government need to act a bit more speedily to try to sort out the arrangements? Presumably you have to plan ahead in order to ensure everything goes smoothly when the concession ends.

Philip Smith: The broad agreements on handover have to be put in place no less than a year before the end of concession. We think the timeframe and the range of dates for end of the concession range from early October 2017 to late February 2018. There are various reasons I can go into as to why there is that range, but if you take the earliest of those and the fact that we have to reach a settlement a year before that, it potentially means October 2016 to conclude those negotiations. Dependent on the Government's position and perhaps how much cohesiveness there is between everybody's standpoint, I think that is quite challenging at this stage.

Q4 Chair: Assuming the Government want to have public ownership of it, which would lead to an immediate reduction of 20% VAT, would you be involved at all in any way? Could you be involved to administrate the tolls that are still going to be collected or would that be SRC completely out of the picture?

Philip Smith: That is one of the decisions DfT needs to determine. Just to elaborate, there are three scenarios. The first is that we reach our revenue target, and that is formally the end of our rights to collect tolls and we can leave at the classic 3.23 on a Thursday afternoon or whatever.

The second is that DfT can ask us to remain in position for a short period of time, perhaps a matter of months, and that might be helpful were we to agree a fixed date for the end of concession. That makes management a lot easier, certainty for staff, certainty for awarding of contracts, even dealing with our contracts, our current suppliers. The basis for that is one of the areas that would have to be agreed a year ahead and, if structured properly, that would allow VAT to come off straight away. Structured less well, then VAT would remain and that might not be desirable.

The third option is that the Government have an ability to award an agency contract to us or one of our suppliers and that would allow us to remain in place, providing the sort of management we have, for a period of up to five years, but that is absolutely at DfT's determination.

Q5 Byron Davies: Good afternoon. There is a great deal of discussion among transport companies as to what the future is for Severn Crossings. I know that the Freight Transport Association has recommended that a full consultation of the handover should take place as

early as possible in 2017, for example. Is there any deadline at all for the handover arrangements to be agreed?

Philip Smith: Most of the provisions, including the fundamental protocols, have to be agreed 12 months ahead. That is a requirement in the concession agreement and that was set to allow us the time to respond to whatever those protocols come up with. We obviously have a sizeable business to wind up and so we have a year in which to do so. That potentially means October 2016 to agree those protocols.

Q6 Carolyn Harris: What are the arrangements that you will need to make prior to the handover? My colleagues and I have heard a lot about what the FTA is saying, but I would be interested to hear what you feel you have to do to get your house in order.

Philip Smith: One of the opportunities for the DfT is to determine what of our movable assets, our equipment, they wish to take over. We need to dispose of or clear those assets they do not wish to take over, and that can range from very obvious things like TAGs or vehicles or bridge-specific equipment. We have a number of relocatable buildings, for example. There are requirements potentially for us, if we were asked to go into an agency agreement, that we need to deal with. We have about 100 suppliers, all of which have contracts that terminate. Some of those are already set up to terminate at the end of concession, but we will have a negotiation with a number of others through the year to ask them to stay around for a period up until the end of concession. It may be that DfT wants those suppliers to continue through, in which case we have to have a different conversation with them.

We also have the big question in our mind of what is happening to the staff. I think the staff at the moment are a little unsure and a little uncomfortable about our inability to talk to them about the future. There is a pension scheme, a final salary or a pension scheme that about 100 of the staff enjoy, which is just over 50% of the staff, and we are currently embarking upon the triennial evaluation. Do you want to talk, James?

James Rawle: Yes. I think the pension area is one where the most notice we can have the better. You do valuations on a triennial basis. We have just started the valuation for 1 April 2016. One of the main things you have to do is an assumption for the future, what will be happening in the next three years, and obviously when you do not know, you have to make contingency plans around pension fund funding. We have done that already to the valuation we did back on 1 April 2013 and we were hoping we would be a little clearer by the time we came to this point as to what was happening for the current triennial valuation.

Q7 Carolyn Harris: You have partly answered my next question, so if I can just deviate slightly and say I probably know a little bit of the answer to this, because I have been chatting to my colleague Jess Morden who tells me you are already making preparations for the staff in terms of retraining. Could you share some of that with us?

Philip Smith: One of the concerns we have, as what I hope is a caring and modern employer, is that particularly the toll collector grade essentially has been trained up to be toll collectors and there has been a very limited amount of career development for them. We carried out a restructuring negotiation of some terms and conditions at the end of last

year. One of the things that we were able to do out of that was create some training opportunities whereby, alongside the unions and the TUC, we have been able to provide some development training for them, to start to look at if free-flow came in, for example, how they could be in a good position to do some of the back office work or, if they are not successful in that and they go out into the wider market, how their CVs would look better than the quite narrow toll-collecting skills.

Carolyn Harris: I think that is excellent and I am really impressed to hear that. Thank you.

Q8 Byron Davies: I think you have more or less answered the question I was going to ask, but just to take it one stage further, I was going to ask you about retraining people. Presumably these are the maintenance people as well?

Philip Smith: Indeed, yes.

Q9 Byron Davies: You have your people who collect the tolls, of course, who presumably would have to be retained for new jobs completely?

Philip Smith: There are synergies with retail, for example—they are dealing with money and customers and so on—but we would have some concern about them going up alongside others for a classic retail job, and so much of the focus has gone on numeracy, literacy, IT skills, that sort of thing. We have had all sorts of interesting propositions from people as to the things they want to get involved in.

Q10 Chair: It does sound to me as though you are not being in any way critical of the Government, but it is obviously very important that all of this is wrapped up by October of this year so that people have a one year lead-in time. If everyone disappears over the summer, we are cutting it a bit fine, aren't we?

Philip Smith: I think my calculation is there is 17 weeks. It comes back to if there are no areas of dispute or disagreement, then these things are relatively straight forward. But at the point where that emerges—at the moment we do not have that visibility as to whether there is a commonality of cause, you might say—then that is when these things become more problematic.

Q11 Chair: That is not the impression I am getting. I am getting an impression of great uncertainty at the moment from you.

Philip Smith: Uncertainty, yes, but we presented, for an example, a proposed handover plan in April and that set out what we thought needed to be covered and timescales and so on. It might be when we get a response to that it will be, “Yes, that is fine, everything is hunky-dory, we are happy to proceed and draft this up” and so on, in which case there are no issues.

Q12 Chair: When did you submit that plan?

Philip Smith: I think about 25 April, something like that, late April.

Q13 Chair: You have had no response to it yet?

Philip Smith: We have had an acknowledgement of it.

Q14 Mr Mark Williams: Can I ask you about the level of debt? That is obviously a constant factor or it goes to the whole of all of this. I am minded of a report that this Committee undertook in 2012 in the last Parliament, which noted that the UK Government said they would not consider the ownership structure of the crossings until it had recovered its own debts for building and maintaining the crossing. I am mindful of the fact that some of those debts fall outside the concession, but what is the level of debt at the current time and what is likely to happen? What is going to happen to that debt when handover occurs?

James Rawle: That is one for me, I think. The answer to your question is the outstanding debt at the moment is £33 million and that will be fully repaid before the end of concession. We took out a commercial bank loan last October to pay off the balance of the assumed Government loan. When we started the concession back in April 1992, there was an agreement that Severn River Crossing would assume the outstanding debt on the Severn Bridge, which amounted to £122 million. At that time, we used borrowings to pay off £62 million of that debt and the balance, the £60 million, was taken as an index-linked loan. It is that £60 million index-linked loan that was repaid last October, so there is no debt to the Government at the moment.

Q15 Mr Mark Williams: At the handover, how much is that?

James Rawle: We are currently at about £33 million. We paid off some more of the commercial debt at the end of May. That took us down to £33 million and clearly we expect to pay that off completely well before the end of the concession.

Q16 Carolyn Harris: I just wanted to say that I was under the impression that there was a debt that was not covered by your contract with the Government.

James Rawle: Sorry, yes, there is an accumulated deficit within the Government books that is not on our balance sheet. We understand that is of the order of £63 million and that that would be recovered in the period immediately after our concession finishes. We have been given to understand that that will be covered in about 18 months after the end of our concession.

Q17 Mr Mark Williams: One of the things that the Freight Transport Association has been talking about in its written evidence to us—criticism, I guess, that it levied at Severn River Crossing Plc—was your lack of flexibility in payment options. It was reflecting about discounts for frequent users, local business and residents, particularly those needed to alleviate pressure points, pressure times. Thinking of the bank holiday weekends, I was going across in the England direction on Friday. There was a very hefty queue coming into Wales on Friday evening at about 7.00 pm. What consideration have you given to looking at some

flexible pricing models such as not charging at night or bank holidays? Obviously there is a cost impact on those and balancing that with the speed with which traffic can pass through. Why haven't they been introduced? Better still, perhaps you could give us some cheerful news for bank holidays. Are you going to introduce them?

Philip Smith: The short answer on the flexible pricing, additional discounts and so on is that we put in a bid in the 1980s and that was submitted and accepted on the basis of charging the maximum increase in tolls each year, so the RPI increase. The reality is that that means that we finish concession the quickest and so it gives the earliest opportunity for the tolls to be significantly reduced. Were we to discount the tolls further by reducing prices on nights or similar, that simply pushes out the end of concession.

Q18 Mr Mark Williams: Given that timeframe, that is the overriding objective?

Philip Smith: That has been the overriding objective. We have looked at options and possibilities. For example, we talked with Highways England earlier this year about whether or not to introduce a scheme whereby at particularly busy times—and I will come back to the issue of delays in a moment, if I may—we could, in effect, step away from charging at all, but that was not taken forward.

In terms of methods of payment, we have made a number of improvements in that area. I read the notes from the last hearings in 2010 and it is interesting how much progress there has been. For example, we now accept online applications for TAGs; we have implemented online credit and debit card top-ups for TAGs and for payment of penalties. We relaunched the website last month and, as part of that, we launched a shared TAG product to encourage people to car share. We are implementing the last few lanes now into contactless payment, and of course contactless is a much quicker method of payment than the normal chip. That has been very well received by customers and even before the project has gone live, over 20% of credit and debit card payments are via contactless.

You are quite right that currently we have seen a level of delay, particularly in the peak hours, that is uncomfortable and we are not very happy with. Generally delays have been due to one or two issues, either just bulk of traffic in peak times being higher than the plazas can cope with or an incident, a road traffic accident or similar. It could, of course, be a maintenance failure.

Routinely we have more than about 99% lane availability, but currently we have the main cable inspection works and they have hit capacity quite hard, so the Severn Bridge, which is traditionally two lanes, is down to one lane in both directions and that has reduced the capacity of the bridge by 25%. In effect, we have had to reduce the throughput of the plaza by 25% and because we use the M48 to alleviate the pressure on Rogiet on the M4, that has affected Rogiet as well. We have been pushing quite hard. We have done a lot in-house to try to improve the situation on that, starting back in last August with some process changes that we made and we have pushed Highways England to look at accelerating those works.

Q19 Mr Mark Williams: I suppose it is years of experience of going backwards and forwards: it is less of maintenance issue, to be fair I think you have that right. It is at those

pressure points, those bulk times during the day. I reflect on again the capacity of having potentially free passage at certain times—it has been suggested between 10.00 pm and 6.00 am—if only to entice people to delay their journey a bit, which would alleviate some of those problems.

Philip Smith: I am not sure we would see that as likely. People who are travelling home—

Mr Mark Williams: I can see that you are running a business, I can see that.

Philip Smith: —at 4.00 pm, going home from work on a Friday, I think the likelihood that many of them are going to delay until past 10.00 pm is quite limited.

Q20 Byron Davies: A very quick question on that. As somebody who has used the Severn Crossing since the early 1970s—and I am a regular user, travelling back and forth to south Wales—particularly on a Friday, it is appalling. I am not blaming you particularly, but it is an appalling queue. About two weeks ago I was there for about 20, 25 minutes waiting to cross and this is the main route into south Wales. It is quite outrageous, I think.

I am intrigued by the number of booths that you have there. Has that increased substantially over the years or have you accommodated the increase in traffic?

Philip Smith: It has remained at 21 booths. What we have done more recently is implemented an increase in the number of booths that are open at any time. In the peaks we have always had every booth open, but away from the peaks we tended to have some closed. What we have done is change our mode of working so that more lanes are open more of the time. That has particularly been possible because credit card payments have risen so high. I think in 2010 we were just introducing it and now it is the most common and most popular form of payment, so we now have a number of credit card car-only lanes and that helps to alleviate pressure from some of the staffed lanes.

Q21 Byron Davies: But the number of booths has stayed the same?

James Rawle: The number of booths is the same.

Philip Smith: Yes, but that is a fixed limit, based on the width of carriageway available to us.

Byron Davies: Yes, I see, so that is not for you to decide on.

Philip Smith: Nothing I think that we could do with that. It would require—

Chair: It is geographical rather than mathematical.

Byron Davies: You could build at the side of it, couldn't you?

Q22 Gerald Jones: Can you give us some background on how you measure and predict traffic flows? What type of effect will the proposals to halve the tolls have on traffic flow?

Have you done any sort of research into that? Could you give us an insight into what that has found?

Philip Smith: As a business, we measure throughput on every transaction, so we get quite considerable detail of every transaction by every vehicle. We assimilate that into hourly and daily totals so that we have a good understanding of what the actual throughput has been. We forecast traffic based on two levels. We do an annual look-ahead, and what that does is allows us to do general business planning but also prepare staff rosters, that sort of thing. We assess underlying trend changes, looking at things like fuel price, economic activity and the general trends that we pick up from elsewhere. We then have a more focused one week look-ahead where we start to draw in notification of concerts or maintenance closures or similar and that allows us to fine tune those plans. What we do not do is hypothetical scenario changes, so we do not look at issues like halving of tolls or removal of tolls or even an increase in tolls. That sits outside what we would engage with in the business. I am conscious that the DfT has set out to do that and I think they are the right people to look at that.

Q23 Gerald Jones: Were you consulted on the proposals to halve the tolls before it was announced?

Philip Smith: No.

Q24 Gerald Jones: I suppose the other question is you mentioned contactless payments and expanding into that. Are there any other sort of proposals that you are looking at to give alternative payment methods at the booths in the hope of trying to alleviate some of the peak pressures?

Philip Smith: I do not propose to widen methods of payment because I do not think there are any other methods of payment that will achieve the objective of trying to improve throughput. If we can improve throughput, that reduces pressures on the plazas. What I am keen to do is to help customers understand and take up the TAG product and hence why we have launched the online capability, the online top-up. We are in the process. I think tomorrow we deliver the new TAG office at Rogiet, which will be open in about a month's time, again as a one-stop shop for people who want to take up the TAG. It is the quickest way of being processed through the plaza and I think there is an opportunity; when I look at the customer profiles, there are more customers for whom it will be a good solution. It is not for everybody, I understand, but there are more customers for whom it will be a good solution. We need to help them understand what the product is and make it easy for them to get. If we had a higher take-up of TAGs, then that would help to reduce the pressure on the plazas.

James Rawle: Just to give a bit of numbers to it, the actual proportions in the various payment methods at the moment: just under 30% of traffic users are TAG, 35% and rising pay by credit card and the balance, a further 35%-ish, pay cash. That is the sort of split.

Gerald Jones: That sort of spread then?

James Rawle: Yes. The trend we have seen over the last year is a shift from cash paying to credit card paying and a very rapid take-up on contactless.

Q25 Chair: Contactless is in place now, is it?

Philip Smith: I think we have four lanes still to commission out of the 21.

Q26 Chair: What about a system a bit like the London congestion charge where you simply pay using the internet? Could you not just drive straight through? Why can't we have that?

Philip Smith: Free-flow?

Chair: Yes.

Philip Smith: I think that sits outside our remit to have implemented that. We made some proposals in December 2015 to DfT to support the process of feasibility studies to look at the technology, look at how it might be implemented within the Severn Crossings. We thought that might be helpful to try to fast track the Government being able to choose whether or not it was the right way to move forward, but that has not moved.

Q27 Chair: You have given proposals to the Government, but they have not come back to you?

Philip Smith: We made proposals to assist them to develop proposals. I say no more than that. We were not proposing to install it, but we were proposing to assist them moving forward on it.

Q28 Chair: Is it that technically difficult? It has been standard in London for years 10 years or more, hasn't it? I don't know.

Philip Smith: Given that I have an expert on free-flow sitting behind me, then I do kind of hesitate to say.

Chair: Yes, I will save that for afterwards. Thanks a lot.

Q29 Liz Saville Roberts: Just to ask a further question on that one, why do you think that the suggestion of free-flow was not taken up or it has not moved ahead so far?

Philip Smith: In terms of DfT?

Liz Saville Roberts: Yes.

Philip Smith: I would guess that is a question for DfT, to be honest.

Chair: We are rattling through all these questions. Carolyn, do you want to say anything further on TAGs?

Q30 Carolyn Harris: I am going to talk about TAGs in a minute, but if I can just get clarification, it was mentioned earlier on that the actual toll has halved. That is not technically true, because when you have taken the VAT off, then the halving would be £2.90, not the proposed £3.30, so it is not being halved, is it?

Philip Smith: I am sure we do not wish to comment on Government future plans that are subject to consultation.

Q31 Carolyn Harris: But it is not being halved, that is the point I wanted to make.

You talked about the TAGs and you will be very surprised or pleased to know that I looked on your webpage and I was very impressed with the fact that you are going to have a commuter TAG, presumably two or more vehicles who share.

Philip Smith: A shared TAG, yes.

Carolyn Harris: They can share their TAG among how many cars?

Philip Smith: Up to five.

Q32 Carolyn Harris: That is an excellent idea. Do you have any ideas that would further benefit businesses and attract tourists and commuters back and forth to make it a more attractive option?

Philip Smith: We have drawn to a close pretty well on where we think we are going with this. We are at a point now where investment is becoming increasingly difficult to justify and I am sure you appreciate that. Contactless has been a reasonably expensive project to implement. It has taken us two years. We will have about 18 months of contactless being in place and I am sure you appreciate that getting your return for the business on such things becomes more and more problematic. Clearly if DfT or Highways England want to talk to us about moving other things forward in anticipation, we are very happy to have that conversation, but it is very difficult now for us as a company to justify further investment.

Q33 Mr Mark Williams: Just on that, very quickly, you mentioned encouraging tourism—and I declare an interest, I chair the All-Party Welsh Tourism Group in Parliament—do you get representations from the tourist sector in Wales about the potential impact of the delays? You have partially reassured me on some of the progress that is taking place, but there is also the wider impact your policymaking on the issues we have discussed so far has on attracting businesses but particularly on the tourist sector of south Wales and beyond.

Philip Smith: We meet the Welsh Assembly about every two months and although we do not get separate representations from the tourist sector, from the Tourist Board or similar, I would guess that they would see that as swept up by the Welsh Assembly in any points they raise with us.

Q34 Carolyn Harris: If I can go back to my last question, I am quite passionate about the bridge; I am like that. For people who have TAGs already, what arrangements are you making about returning deposits on those TAGs post-SRC?

James Rawle: We have an arrangement at the moment where if you have a TAG, we ask for a refundable deposit of £30. If you return the TAG, we pay you back the £30. In terms of what happens after us, again it depends a little bit whether the TAG technology is going to continue to be used by whoever takes over from us in the end. Clearly an option would be that we could effectively transfer the TAG arrangements to our successor. If that is not the case and the TAG is not to continue, you can return your TAG and will be refunded the £30.

Q35 Carolyn Harris: Presumably people will have enough notice of this. If you are not the person who gets the contract for running the bridge, if somebody has a TAG and they say they cannot use it, then they realise six months down the line after you have gone, will they have just lost their money, or will you offer a service outside of the timing to give refunds?

James Rawle: I have been involved in this project long enough to remember when there were tickets in the 1990s. We had people returning tickets up to three or four years later and eventually you had to say, “Hang on a second”.

Carolyn Harris: “No more.”

James Rawle: “No more.”

Q36 Carolyn Harris: But presumably you will have some kind of campaign?

James Rawle: We will have to find something, yes. If that is the case, then we will have to publicise it and hopefully—

Philip Smith: I think where James and I are possibly being quite cautious on this is we cannot, in all common sense, see that DfT will want to do other than carry the existing technology through to the end of concession, even if their proposal then is to replace it shortly after. But on the logistical issue, we have 65,000 account holders, we have 110,000 TAGs out there, and for someone to wake up today and decide to implement new technology on the same day as the end of concession and issue out 110,000 TAGs to 65,000 account holders seems to us to be an extraordinary risk. But ultimately that is a decision for DfT and if DfT tells us that is what they are going to do, then we have to deal with the ramifications. We hold the money in a separate account. It is not money that we have used to pay back banks or anything like that. That money is there available and we will have to find a mechanism to repay it. I would heartily hope that that issue is not going to arise.

Chair: I think we have explored a lot of the issues around measures to improve traffic flow. I am wondering if you would like to possibly turn to the condition of the bridge.

Liz Saville Roberts: It was a question about maintenance, wasn't it?

Chair: Sorry, yes.

Q37 Liz Saville Roberts: Just noting in your evidence to us that you said SRC would hand over the structures of both the crossings in a condition that is commensurate with the design life. Therefore—and it is quite an important question—what is your assessment of the condition of the two bridges, and what does “commensurate” mean in the sense of the condition to which they should be returned to public ownership?

Philip Smith: “Commensurate with the design life of the bridge” is the obligation upon us in the concession agreement. Not all components in the bridge have a 120-year design life, for example surfacing or paintwork, so there is an assumption that the bridge will be repainted over a period of time and so on. But we believe the bridges are in good condition and that they are well maintained. We have a good strong in-house inspection team who are employed wholly and solely on inspecting these bridges. They have a very detailed knowledge. It is one of the reasons why in the submission I drew out the length of service of the typical maintenance and inspection employee, because these guys and gals have been involved in this a long time, they know what they are looking at and they have a good assessment of whether that condition is changing.

Those inspections are monitored and audited by DfT, they are recorded, defects are programmed for repair and those repairs are undertaken, and that is subject to audit. We categorise defects on a grading from 1 to 5, where 1 is essentially a note and 5 would be a serious defect. We have, as of today, no category 4 or 5 defects. A category 3 typically would be a minor painting repair, something of that ilk, so those are the only levels of defects that we have on the structures.

Q38 Chair: That is great. I wonder if you could put one or two myths to bed now, because there are some people in Chepstow who are concerned that there are serious problems with the old Severn Bridge. I understand that is not correct, but it would be helpful if you are able to put that on record.

Philip Smith: I take it this is a reference to the main cable?

Chair: Yes.

Philip Smith: The main cable sits outside our obligation, which is not to say that we are uninterested but it is not part of our concession obligations. The main cable defect I think was discovered in the US about a decade ago and is to do with corrosion within the enclosure to the main cable itself. Once detected in the US, all similar structures were inspected, including the Severn Bridge. That showed a similar issue there and so remedial works were put in place. Primarily those remedial works are to dry out the conditions, the atmosphere within that waterproof encapsulation and, having done so, the level of corrosion is reduced to almost nil. The cables themselves are structurally sufficient and the action was taken. We are currently undertaking a further intrusive investigation to assess that those preventive measures are continuing to be effective and we await the report.

Q39 Chair: No secret plan to close the old Severn Bridge then?

Philip Smith: It would be news to me.

Q40 Chair: Excellent. We have it somewhere but could you tell us the annual costs of maintaining the bridges as a percentage of revenue? I believe the figures, from memory, are about £15 million a year to maintain them and about £75 million a year in revenue. Is that roughly accurate?

James Rawle: Can I update those figures? The spend last year on operating and maintaining both bridges was of the order of £13 million, which excludes any latent defect work for Government, so this is work we would do as a contractor for a third party. If you work on our spend of around £13 million and then perhaps add on a little bit for other works, your £15 million is about right.

Q41 Chair: The revenue?

James Rawle: Revenue last year was £98 million net of VAT, so obviously you add the 20% VAT on top if you were working on our current target.

Q42 Chair: There is lots of room for the Government to be generous if they wish?

James Rawle: How do I answer that question?

Philip Smith: It is a question for DfT.

Q43 Chair: Okay. Here is a fairer one then: is it likely that that revenue is going to go up at all? We just asked about the condition. Is it—

James Rawle: Yes, we are seeing some quite significant traffic growth at the moment. Last year our traffic grew by 5.7%. In the first four months of this year, the trend has been 5.3%, so it is growing.

Q44 Chair: Maintenance costs, anything that is likely to cause a spike?

James Rawle: The maintenance costs are broadly similar. They will be going up slightly. There is the cost of staff and there are RPI-linked increases. Also we are doing the main cable work at the moment, which is a substantial contract.

Chair: That is a good point.

Q45 Byron Davies: I am wondering about the issue of Newport and the M4 at Newport and the idea of building this alternative route to the Brynglas Tunnels. What effect would that have on the Severn Bridge, do you think?

Philip Smith: That is something we have not assessed. The timescale for that sits outside our concession, so it is not something that has featured in our business analysis.

Byron Davies: Sadly.

Q46 Liz Saville Roberts: Moving on to the question about public ownership, given the impact of the two bridges on the economy of Wales, surely it is uncountenanceable that the income from the tolls post-2018 should be retained by the UK Government; a number have stated this opinion. I welcome your views on this, that the Welsh Government should be in control of the bridges and in receipt of the income, and also your opinion on what day-to-day difference that might make on crossings over the Severn.

Philip Smith: The decision about who has financial control of the bridges, whether that is in terms of expenditure or the revenue, is not something that we as an organisation have any views on. At the end of the day, we just want to work with whoever is nominated, whether private or public sector, to achieve our objective of a smooth and seamless handover. We do not mind. We have no view on who that will be.

Q47 Liz Saville Roberts: I think that is a very diplomatic answer.

Philip Smith: I am a very diplomatic person.

Q48 Liz Saville Roberts: From where we stand now, would you perceive any differences in operation if this was to occur?

Philip Smith: It is not something we have given any thought to.

Q49 Chair: Can I ask one last one? I know the answer to it again, but it is good to have this on the record. One of the myths that circulates in the pubs of Chepstow is the whole thing is owned by the French and they are making a load of money out of it. True or false, sir?

Philip Smith: False.

James Rawle: It is false.

Philip Smith: Severn River Crossings is a UK-registered company.

James Rawle: We pay UK corporation tax.

Philip Smith: We pay UK corporation tax, UK VAT. We do have a French shareholder, but it is a 35% holder.

Chair: All right. I will now be able to give a proper answer to that. I do not have any further questions. Has anyone else? If not, can I thank you very much indeed, and we are looking forward to seeing you next week. Thank you very much.

Examination of Witness

Witness: **Eric Cornuaille**, European Electronic Toll Service Consultant, HeyCo Consulting, gave evidence.

Q50 Chair: Mr Cornuaille, thank you very much indeed for coming along. You have already been billed as one of the world's experts in free-flow technology by SRC, so we are grateful that you have been able to come along here today. You obviously have a lot of experience in setting up free-flow systems and you would have heard in the evidence just now that there seems to be some difficulty, or perhaps that is too strong a word, but certainly a plan has not yet been put in place for the handover of the bridge. How long does it take to put in place a free-flow technology system?

Eric Cornuaille: First of all, I would like to thank you for the invitation and to have the pleasure to talk to you a bit. Sorry for my English, because I am French, and I will try to do my best in that.

A straight forward answer to your question is it is a little bit of a challenge because, as you pointed out earlier, we have a different way of thinking about free-flows. There are different projects in terms of free-flows. You talk about the London congestion charge, which is one way of doing a free-flow. You have other ways of doing free-flow, which is just a gantry, and another way that would be most likely to be something that would be implemented on the Severn Crossing Bridge, for instance, would be like that on the Dartford tunnel.

Introducing free-flow is not just a question of pure technology. The technology may cost a small amount of pounds. However, in terms of all organisations for collecting tolls, it changes completely the link to how you collect toll. The collection of information on the road is simpler and easier compared to a standard tolling system, so the cost will be significantly lower to implementing a new standard toll. However, there is much more back office and I think the London congestion charge on this is pretty much a good example. They have quite a lot of equipment on site, the communication was high, and there was very interesting communication in 2005 while it was introduced, and there were plenty of back office processes in order to manage all the information collected through images and so on. Comparing just the technology and putting a figure on technology is maybe misleading.

However, I think you would like to have figures, so I can give some but I would like you to take them really carefully. If you need to collect information just with some transponders, so TAGs, as the Severn Crossing is already having a few—or maybe a lot, because I have heard 32% rate of penetration, which is already quite high—you have to have gantries, some video cameras to collect the information on the vehicles, a classification system that enables you to say which type of vehicles and what fare to attach to a vehicle, and then also an antenna that would be able to collect the information of a TAG if the vehicle is equipped with the TAG. On a three-lane carriageway it is in the range of £1 million, so it seems to be not a huge value. However, the difference is in the back office and it is not just technical, it is personnel. It is important to point out that it is not just a question of service, how intelligent the service will be to identify the right transaction, but how you will have to post-process information that is linked or not linked to a proper transaction, violators and things like that, for instance.

Q51 Chair: Can I break that down into two further questions? The first one is if we agreed in principle or if the Government agreed that there has to be some form of free-flow

technology on the bridge, how quickly could it be set up? Are we talking months or a year or some years?

Eric Cornuaille: We are not talking about only months, because if you exclude the problem of preparing it, it needs a lot of preparation. I was just speaking about communication for the London congestion charge, but look at what happened in Stockholm for the same thing. It took them more than a year to prepare people for what would happen. If you exclude all these parts and are just introducing this, we are talking about a year or something like this.

Q52 Chair: It sounds to me like you are suggesting a year is the minimum amount of time.

Eric Cornuaille: Yes.

Q53 Chair: So it could be two years, so we are unlikely to see free-flow technology before the handover, as things stand?

Eric Cornuaille: I would expect so, yes.

Q54 Chair: The second point, if I am understanding this correctly, is that you are saying when you have a congestion charge type of free-flow, the cost is not only in setting up the cameras and things on the motorways but also the people who have to administer the charge afterwards in an office somewhere.

Eric Cornuaille: Exactly.

Q55 Chair: You quoted £1 million for three lanes, and the Severn Bridge has 24 lanes at the area of crossing, or 24 booths, so would that equate to 24 lanes? Are we talking about £70 million or £80 million just to set up the free-flow all the way through?

Eric Cornuaille: No, sorry, I think there has been misleading information from my side about that. For the free-flow, you do not replace booths by this kind of equipment. You completely remove the booth and you put the gantry on the carriageway lanes, so in fact when I was talking about the three carriageway lanes or three lanes, it was three carriageways, proper lanes. In fact, depending on if you toll both eastbound and westbound on the two bridges, the cost equipment-wise on site, so on the roadside equipment, would be in the range of £4 million to £5 million, something like that. But I insist on the back office side, it is a completely different organisation from what you have to collect standard tolling.

I would add another thing, which is that there is the complete free-flow where you fully open the carriageway to full traffic—

Chair: Yes, and drive straight through, yes.

Eric Cornuaille: —and we can talk also about hybrid free-flow. The experience in Dartford, for instance, is full free-flow. There is no other way of paying the toll on the

Dartford tunnel; that is the one through free-flow. You cannot go aside and pay in a booth. The hybrid free-flow is another kind of thing where you keep some other methods of payment so that at least the infrequent users—let's say the French, for instance, coming to the M25—will still have the possibility to pay. They will not discover that, because they are not fully aware of what is happening in the area, they will not be aware five seconds before or even 10 kilometres before that there is something and then they pass through without noticing and without being able to see the website or the phone call or the means or the method of paying, which is a challenge because it introduces violators who may not be intending to violate. You are post-processing transactions where you should not somehow.

Chair: I do not want to hog this. I have a few more questions, but maybe I should go to Gerald; you were next on the list.

Q56 Gerald Jones: You described some of the free-flow systems. Which of those would you feel would be a good match for the Severn Crossing?

Eric Cornuaille: I will try to answer that but I do not have sufficient information both on the Severn Crossing as well as on the area, which must be taken into account. As an introduction, I have heard that 30% of the transactions are made through transponders, so I would consider there are plenty of commuters. Mr Davies was saying that he was also a frequent user, but he was talking about Friday nights or things like that, so there are also infrequent users. In my own opinion, as this is a bridge—or these are two bridges—and it is a different structure from the London congestion charge, which is a zone or highway with 400 kilometre things and so on, you cross it once and you have no other way of crossing another thing or you are not standing in the area to understand, “Oh, I have 24 hours to pay” or something like that. As a first stage and a first proposal, I would think about something like a hybrid thing that also allows you to think about a smooth transition period, to benefit from what exists to going to something offering a better service and a better operation.

Q57 Gerald Jones: Has anybody approached you to offer any advice officially for what systems could be used?

Eric Cornuaille: No. On the Severn Crossing—

Gerald Jones: Yes.

Eric Cornuaille: —or even in England? No, it is a while. I have not been to England and I have not been offered anything yet.

Q58 Gerald Jones: Is the system of setting up toll collections in both directions a viable option?

Eric Cornuaille: I do not know, frankly speaking. It is feasible, I guess, yes. I see that there are 13 lanes in one plaza and eight lanes and probably you have sufficient space to change the shape of these plazas a little bit so that you can still have free-flow carriageway

lanes, plus some booths on both directions. But this has to be analysed carefully before any decision.

Q59 Carolyn Harris: Thank you for sharing your experiences of working on the M25. What has been your experience of working with the Department for Transport in the UK?

Eric Cornuaille: That is a good question. Frankly speaking, it was a very good experience, because very detailed information was shared and there was a huge study before getting into any decision. Let's say, compared to other countries I have been working with, I really enjoyed this. It was very professional.

Q60 Carolyn Harris: What lessons could you share with the Severn Bridge project going forward, from your experiences?

Eric Cornuaille: It is a broad question, but what I have heard is that when we are talking about methods of payments, when we are talking about prices as well, so level of prices, there are plenty of experiences. I have been working in Greece for quite a while as well and we experienced quite an interesting thing with the level of money to be paid. If you are talking about £6.60, that means you have to round it somehow and to give back some change, so that makes it a little bit longer to carry on in a booth. When you are talking about more and more methods of payments, it is good, but somehow it makes it a little bit complex for people. In France, there are something like 15 means of payment that are accepted, so that normally you are never blocked in the lane because you always have a means of payment on you.

These are all the kind of things we can think about, but free-flow of course is one thing I would like to share. There is interoperability as well. When we are talking about interoperability, the Severn Crossing has TAGs for the commuters and for people who are regularly using the crossings, but there are possibly regular users in that field who could be travelling across the Severn or other users with TAGs. Interoperability may be a solution to link the different means of payment.

Q61 Carolyn Harris: What would you think would be the primary arguments for and against free-flow on the Severn Bridge?

Eric Cornuaille: I am pro free-flow, that is the first thing, because I think that it gives you the ability to provide the full capacity of a carriageway. It does not block people in lanes, so that ecologically speaking it generates less carbon dioxide and things of that ilk. However, the caveat is that it should not be a burden as a result to post-process a lot of transactions and it should guard against the capability to evade tolls or to increase the level of cost and expenses to manage all that. I would go for these kind of things but smoothly and carefully, with good studies, good implementation. On all the projects that I have seen going for free-flow, the learning curve has been very hard.

Q62 Mr Mark Williams: I was going to ask you how a free-flow system would help with waiting times at toll booths, but if we were to move on this, we are not going to have toll

booths any more. I alluded earlier to the queues and delays that there have been, admittedly at particular times, in getting over the bridge, so I am not going to ask you about that.

Probably the key thing is what you just said; it is about the transition from where we are now to potentially where we could go. You said in France there are 15 different ways in which people can pay. On the Dart Charge project on the Dart Crossing, there was another benefit, that prepay account drivers could save up to a third on every crossing of the actual cost. Would you agree that the benefits are not just in terms of speed and the lack of frustration and the environmental impact as well, but the scope this gives us—albeit with a shift from people at booths to administrative back room operations—to benefit the consumer as well, the driver?

Eric Cornuaille: That is definitely true, but it is not only linked to free-flow. This is more linked to the means of payment and the customer subscription programme you can provide. The more customers you have with a specific link to them the better it is, because there will be more waiting to use it, so that means you can also find out the best programmes. I hope I am answering your question, but you were talking earlier about the discounts and things like that that Severn Crossing can provide. There is the policy for a concession company, but there is also the capability to do it in terms of means. If you have subscriptions, then you can think about anything.

There is a project in California that is called the SR 91 on which you can have a different price every hour, so depending on the time you are crossing or you are using the highway it has a different fare. In Minnesota, for example, there is another scheme where the tariff can change every three minutes, depending on the actual traffic experienced. All this has to be defined through laws and through the relevant regulations, of course, but you can imagine anything you want. But that is a different topic, because it could be done through manual tolling, maybe creating a mess, but—

Q63 Mr Mark Williams: Yes, but it is about getting that transition. If one was to go along to this model, it is about making sure that that transition is working and it is communicated well to people, isn't it? I can think of constituents of mine from west Wales who came down to London to visit me at the time when the London congestion charge was introduced and were oblivious to the fact that it existed and then had a shock when they got home and a bill was sent to them. What was the experience of that on the River Dart Crossing and the other projects you have been working on for those who did not get the message that this change was taking place?

Eric Cornuaille: The good comparison between those two projects is the time of experiencing and being informed. Crossing the Dartford is very quick, and you are in a continuous flow of traffic, but it is a very short in terms of having the information that you should be paying. People were a bit aware of the first stages of the London congestion charge, but if they were coming from far away from London, they may not have been aware of it. However, there is big signage, you are waiting, the flow of traffic is a little bit slower normally, so that you have plenty of information and time to assess it. Even when you park your car, you have the information. If you have a relative in London, you can talk about it. Dartford is different and that is the case of the Severn. I could be crossing the Severn in a few minutes, maybe blocked in a toll booth for 25 minutes on a Thursday, and

then suddenly I see that the traffic is completely free, so it somehow may be free of charge as well.

The issue here will be to provide sufficient information so that there is no possibility to claim that there was no information. This is where, for instance, I am thinking about—to your question—something like a hybrid, so that people will be aware that if there is still a booth or something like that, that means there is still something ahead and not just a gantry, which just serves to inform people. If you are now crossing into France or driving into France, we have had the experience of the ecotax for the trucks and you have plenty of these gantries everywhere. They are no longer used, but nobody can tell you that they were supposed to be used for collecting tax at that time.

Mr Mark Williams: That is very helpful, thank you.

Q64 Chair: Would the European Union EETS directive be a good thing or a bad thing for the Severn Bridge and is it preventing us from putting in this technology now?

Eric Cornuaille: It is not preventing you in any way. Is it good or bad? I am probably not the right guy to say it may be bad. It is good, I definitely think it is good, but it gives you still a lot of room to do whatever you want. The directive is more likely to be on the interoperability thing rather than on the way you want to implement that, but it will not prevent you from doing free-flow or not free-flow. It is not linked to that.

Q65 Chair: Would there be any expense for other parts of the UK that may already have technology, like London or Dartford, in trying to harmonise with this regulation?

Eric Cornuaille: The most synergy you can define on this would be probably the legal part of it, but technology-wise you will have to implement roadside equipment, so that relates to the range of options that I spoke about before.

The second thing is that on the operational side maybe you can find some synergy, but it depends on who this system will belong to at the end, who it will be operated through. That could be quite a difficult thing, I guess, but could be analysed.

Chair: I do not think we have any further questions so, as a good European, Mr Cornuaille, may I say merci beaucoup pour votre présence ici aujourd'hui.

Eric Cornuaille: I am really honoured to be with you. Thank you very much.