

Impact of reduction or removal of Severn Bridge tolls on the towns of Monmouthshire.

The Future of the Severn Bridges and Tolls

- Ownership of the Severn bridges reverted to the UK Government on 8th January 2018 and tolls are to be abolished at the end of 2018.
- Bridge tolls were reduced in January 2018 as a result of the removal of VAT.
- Vans previously paid a higher toll than cars. However, with effect from 8th January 2018, all vehicles with up to 9 seats pay a toll of £5.60.
- In July 2015, the UK Transport Minister ruled out giving the Welsh Government control of the crossings but indicated that he had every intention to work with them on future operation of the crossings.

History

- The Severn Crossings are the primary gateway to South Wales. The first Severn Bridge was opened to traffic in 1966. The Second Severn Crossing was opened in 1996 and the two bridges now operate in tandem.
- Tolls have been in place for the entire history of the Severn Crossings and charges have been used to pay for their construction, maintenance and operation through a concession agreement with a private operator.

Severn Crossings Traffic and Travel Patterns

- The M48 carries more local traffic with the majority of origins/destinations being Monmouthshire, Bristol and the South West of England, whilst the M4 is more strategic in nature serving a much wider market, with origins and destinations from across all areas of South Wales and across Southern England.
- There is a small directional imbalance, with slightly more traffic in the eastbound direction compared with the westbound direction. This is due to the fact that the toll is charged only in the westbound direction and therefore a small proportion of traffic crossing uses an alternative route to make the westbound trip (via Gloucester).
- Severn River Crossing plc collected a net revenue of £91.4m in 2014, of which £13.16m was operational expenditure including maintenance. £17m was paid in VAT.

Research – Impact of the Severn Tolls on the Welsh Economy

- The most recent comprehensive research conducted into this subject was published in May 2012 by Arup on behalf of Welsh Government.
- This study was the first comprehensive attempt to consider the effects of alternative futures for the tolls on the Severn Crossings. The study has highlighted the many complex impacts and issues related to Severn tolls. The tolls impose a cost on users. It is clear that such impacts are not evenly distributed across individuals, sectors or geography.

- The proportion of trip costs accounted for by the toll varies greatly across different types of user. For a car journey (excluding commuters and business travel) the toll represents approximately 19% of trip costs for a journey between Cardiff and Bristol. For a business traveller, considering the value of lost productive time, toll costs fall to approximately 8% of trip costs. For goods vehicles making the equivalent journey, tolls represent 23% of total journey costs for a light goods vehicle and 21% for a heavy goods vehicle. The proportionate impact of the toll falls with distance travelled.
- The tolls represent a cost imposed on economic transactions between South Wales and the South and West of England and the report noted that there is a complex relationship between the Severn Crossings and the Welsh economy.
- There was no data available which allows an accurate assessment of how costs are split between vehicles and businesses based in Wales, or elsewhere.
- Because tolls have been in place since their opening, there is no reliable historical change in tolling regime on which to base an estimate of the effect of tolling on traffic demand.
- Modelling is therefore the most appropriate approach to analysing toll scenarios.

Impacts on Business Performance and Location

- An analysis was undertaken of the impacts of the Severn Crossing on the performance, behaviour and competitiveness of business in South Wales.
- **The proportion of businesses for which the tolls are 'significant' is a substantial minority, with 12% reporting the tolls to be significant and 8% reporting the tolls are highly significant.**
- The importance placed on the tolls was closely related to the particular sector, location and operating structure of the firm in question. Not unexpectedly, businesses based in South Wales are more likely to place importance on the crossings and the tolls than businesses based in the South West of England.
- The significance of toll costs must be seen in the context of overall operating costs. For the vast majority of businesses direct toll costs represent a very small proportion of total costs.
- **For the service sector and 'high value' manufacturing firms, transport costs typically make up a small proportion of overall costs and therefore toll charges are of diminishing importance.**
- **The exception is transport and logistics businesses predominantly engaged in trade between the South and West of England and South Wales. An illustrative analysis suggested that toll costs could, in the most extreme cases amount to between 5% and 10% of annual vehicle operating costs for freight vehicles.** Given that profit margins tend to be relatively low in this sector, the implications for business performance and profitability can be significant where a firm is predominantly engaged in 'cross-Severn' goods transport.

Business Location and Markets

- Businesses were more likely to report that tolls affected their cost base and profitability than they were to suggest that the tolls deter customers or place their business at a disadvantage, in comparison with businesses located in England, when competing in particular markets.
- Within the logistics sector, there is some evidence of businesses being encouraged by toll costs to locate vehicles at depots in England rather than in South Wales, although for the most part freight businesses are likely to be engaged in movements involving either a Welsh pick up or drop off for which any operator, whether based in England or South Wales, would be subject to the toll.
- Where toll costs are significant for businesses, tolls effectively increase the cost of doing business in South Wales, thereby making Monmouthshire and South Wales a less attractive location for investment. Location decisions are highly complex and businesses will consider access to markets, access to skills, wage costs, costs of land and property.
- The quality of existing transport links (quality of access to motorways, local road network, public transport, and parking) are seen as a key advantage of firms' current location. When asked about the main disadvantages of their location, transport related factors were also frequently identified by Welsh firms. The Severn tolls were specifically noted by one firm to be a disadvantage without being prompted (WG).
- Some businesses pay regard to toll costs when considering locations in South Wales but no instances could be identified where toll costs were pivotal in a decision not to locate in South Wales.
- In the specific case of Regional Distribution Centres (RDCs), when choosing a location it is typical to undertake a detailed cost-benefit assessment of potential locations which takes into account all operating costs including tolls. On this basis, it is possible to imagine a situation in which the tolls may have contributed to a decision to locate outside Monmouthshire. However, given the wage and fuel costs associated with journeys across the estuary notwithstanding the tolls, in most cases proximity (to the M5 corridor for example) is likely to be a more significant factor than the tolls themselves.
- At the end of September 2017, C M Downton announced that it had taken a four year lease on the former Tesco distribution centre at Newhouse Farm, Chepstow. This is one of the largest industrial buildings in Monmouthshire at nearly 300,000 sq ft and had been vacant for some time. CM Downton is a Gloucestershire based logistics company which operates a range of sites across England and Wales. These premises will be in addition to their existing site at Newhouse Farm, Chepstow, which was established in Autumn 2016. Lower property costs on the Welsh side of the Severn and the abolition of bridge tolls were amongst the factors that influenced their decision.

Impacts on the retail, tourism and leisure sectors

- The study considered whether the toll deters visitors to Wales, thereby having a negative effect on the tourism or retail sectors.

- The significance of the tolls in determining visitor's travel decisions should be seen in the context of total trip costs. From this perspective, toll costs are likely to be significant mainly for trips of a short duration, such as day trips and shopping trips, and where the distances travelled are relatively short. For longer distance trips and overnight stays, the toll is likely to be a small proportion of the total costs of a visit. Therefore, 'higher value' tourism is less likely to be affected.
- When asked if they would expect to make more trips to Wales by car if the Severn tolls are removed, 22% of surveyed residents of South West England said they would expect to make more trips to Wales in the next twelve months if the Severn Tolls were removed.
- The proportion of respondents expressing this view falls with distance from the crossings, perhaps supporting the assertion above that tolls are more likely to influence trips of a shorter duration.
- The tolls might be expected to deter trips in either direction. Therefore, the net effect on the Monmouthshire economy could be positive or negative. Given the importance of the visitor economy in Monmouthshire it is considered likely that the net effect of the tolls is, on balance, negative.
- There is anecdotal evidence that the tolls discourage tourist coach traffic and day trippers.
- Tourism industry representatives have asked that consideration be given to whether toll negatively affects the way people *perceive* Wales as a visitor destination and whether this has an effect disproportionate to the financial cost of the toll. For example, the cost and inconvenience of the toll were highlighted as potential issues during the 2010 Ryder Cup when tourism bodies were seeking to encourage return visits. However, effects on perceptions are difficult to measure or to separate from other factors and there is no firm evidence of the link between tolls, perceptions and propensity to holiday in Wales.
- **In 2016, tourism was worth £190 million to the economy of Monmouthshire. Day visits generated £57 million and this could be expected to increase when tolls are reduced or removed.**

Sectors

The following sectors are important to the economy of Monmouthshire:

- Wholesale & retail trade – 20.0% of employee jobs (Wales – 15.1%)
- Transportation & storage – 3.6% of employee jobs (Wales – 2.9%)
- Accommodation and food service activities – 10.0% of employee jobs (Wales – 8.9%)
- Arts, entertainment & recreation – 2.6% of employee jobs (Wales- 2.5%)

The sectors are present across Monmouthshire, although the Wholesale & retail trade together with Transportation & storage are particularly well represented in areas close to the M48/M4, such as Chepstow, Caldicot & Magor.

They are likely to benefit from a reduction in the burden of Severn Bridge tolls which could be expected to lead to an increase in turnover/profitability. This may also increase the attractiveness of Monmouthshire as a business location.

Impacts on the Labour Market

- The tolls represent a potentially significant deterrent to commuting between South Wales and the South West of England.
- Traffic analysis suggests that removing the tolls would result in an increase in commuting across the Severn Crossings of 11% (excluding reassignment of traffic).
- Changes in commuting patterns take time to play out and this should be considered a long term adjustment.
- Local labour markets are complex and individuals typically make their commuting decisions based on a range of factors. Mobility, recruitment and job search geographies vary by sector and by occupation. Individuals typically make their commuting decisions based on the balance of wage and job differentials between home and work locations, differences in the cost of living/quality of life and the costs of mobility.
- The existing directional imbalance in commuting and the differential in wage rates between 'English Severnside' and 'Welsh Severnside' might suggest that the greatest part of any increase in commuting would relate to residents of Wales travelling to jobs in England.
- This effect could be reinforced by patterns of migration with more affordable house prices in Wales and the rural amenity of an area such as Monmouthshire which currently has the highest number of commuters into England of the South Wales Local Authorities.
- Given the occupational profile of commuters and the fact that higher paid workers are typically more mobile than lower paid workers, it is likely that additional commuters will also be above average in terms of pay and skill levels. The inference from this is that the additional commuting is likely to primarily represent changing employment search areas or changing distribution of employment rather than any increase in participation rates.

James Woodcock
First prepared: 13th December 2016
Updated: 11th January 2018