



Department
for Transport

David T.C. Davies MP
Chair
Welsh Affairs Committee
House of Commons
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From the Parliamentary
Under Secretary of State
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Dear David

Thank you for attending the meeting on the future of the Severn Crossings on 10 February. At the meeting I promised I would follow up on some questions on the position on VAT after the concession ends.

At the end of the concession the Crossings will revert to public ownership. The Government will need to continue tolling to recover costs that it has incurred falling outside the concession agreement. The department's latest estimate of these is that they will be £88 million at the projected end of the concession in 2018 and it will take 1-2 years to recover this money. Once in public ownership VAT will no longer be payable on the tolls. Under the Severn Bridges Act 1992 it would be possible to reduce tolls to reflect the fact that VAT was no longer payable.

The Government is in the process of corporatising the Highways Agency into a more independent government-owned company with long-term funding certainty and flexibility, which will operate more commercially and deliver more efficiently. At our meeting a question was raised about whether VAT would be payable if the Highways Agency took on ownership of the Crossings in future. If at some point in the future, ownership of the asset was transferred to the corporatised Highways Agency which continued to collect toll revenue on behalf of the Secretary of State, we do not think this would affect the VAT situation.

However this would need detailed review by tax specialists given the complexities of the legislation and the position would need to be considered at any future date, in light of the precise toll arrangements being proposed and the then EU and UK VAT legislation. There are no plans to transfer toll raising powers, including those for the Severn Crossings, to a corporatised Highways Agency. These powers would remain with the Secretary of State for Transport and any day to day operations of the Crossings will be managed by the corporatised Highways Agency on behalf of the Secretary of State.

As the concession draws to an end the department will work with key stakeholders including the Welsh Government, affected local authorities, business representatives, the Welsh Affairs Committee and other interested parties.

Yours sincerely

A handwritten signature in black ink, appearing to be 'R. Goodwill', written over the text 'Yours sincerely'.

ROBERT GOODWILL