



Ein cyf/Our ref KS/07240/19

Russell George AM  
Chair, Economy, Infrastructure and Skills Committee

Government.Committee.Business@gov.wales

16 August 2019

Dear Russell,

Thank you for your letter of 24 July following the In-year Financial Scrutiny of the Economy and Transport Portfolio.

#### **M4 Project Cost Estimates and VAT**

Published M4 Project cost estimates have consistently been clear and accurate, with appropriate consideration of VAT and price base. Economic Assessment Reports were also published to the Public Inquiry, which then scrutinised the cost estimate in detail.

It is conventional practice, as per Treasury 'Green Book' guidance, that VAT is excluded from assessments during development stages of projects due to the somewhat cyclical nature of the payment and the fact the quantum is difficult to estimate.

When closer to final investment decision, such as the consideration of the Welsh Ministers of whether to make the Orders, it is important to refresh the price base to a current value, and also more appropriate to factor in non-recoverable VAT. This allows for optimal consideration against other Government spending priorities.

At the time of the Welsh Transport Planning and Appraisal Guidance (WelTAG) assessment in 2013, the Project cost estimate was £998m. This estimate was prior to introduction of additional scope since 2013, such as enabling works within Newport docks; enhancements to junctions and additional environmental mitigation measures arising from liaison with Natural Resources Wales.

The scheme cost estimate, updated during the Inquiry, was £1.321bn. A breakdown of that estimate and its history have been published to the Public Inquiry, and is attached under Annex A. This figure excluded all VAT (whether recoverable or not). The latter figure quoted of £1.57bn included non recoverable VAT (recoverable VAT was excluded as this would not be a cost to WG) and an adjustment of £44m which related to the costs already incurred for Key Stage 4 (as they had already been incurred they would not be subject to inflation or form part of any future spend). Therefore, how the £1.57m figure is arrived at is detailed in the table in Annex B.

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:  
0300 0604400

Bae Caerdydd • Cardiff Bay  
Caerdydd • Cardiff  
CF99 1NA

[Gohebiaeth.Ken.Skates@llyw.cymru](mailto:Gohebiaeth.Ken.Skates@llyw.cymru)  
[Correspondence.Ken.Skates@gov.wales](mailto:Correspondence.Ken.Skates@gov.wales)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

## **South East Wales Transport Commission**

As stated in the Terms of Reference, the Commission will report on its interim findings within six months of its formation. It is my expectation that the interim report will be available as early in the next calendar year as possible.

The Commission will consist of individuals with a wide range of relevant expertise. The desire for the Commission to have “fresh eyes” is to seek out and apply UK and international best practice to developing innovative solutions to the problems associated with congestion on the M4 around Newport rather than exclusion of anyone with any prior involvement of the M4 Project, either for or against. Lord Burns intends the Commission membership to be small and focused, and I am confident that he will propose a well-balanced, appropriate team well suited to the task in hand.

Whilst administration of the Commission will be provided by Welsh Government officials, the Commission will have full authority to lead and develop its own findings and recommendations. It is intended to procure technical services for supporting the Commission via Transport for Wales to provide a further degree of autonomy and quality assurance.

As discussed, Lord Burns has already indicated that he is willing to liaise with Assembly Committees. An initial task for the Commission will be to determine its stakeholder engagement plan of how it will involve all parties in its work, ranging from the public to Ministers and bodies such as the EIS Committee.

As mentioned in your letter, my official's discussed the matter of maximising future value from the data prepared to inform the M4 Project Public Inquiry at a PAC scrutiny session earlier in July. Budget has been allocated to ensure that the M4 Project is 'wound up' in a way to best achieve this. For instance, Lord Burns has already requested a report on the existing traffic situation, broken down by various categories such as daily flows, peak hour flows and origin/destination of travellers. Data already collected for the M4 Project can be used to answer this query.

### **M4 Relief Road – further information on funding and scope**

Both the First Minister and I have been clear that the decision not to proceed with the relief road does not create a £1.4 billion windfall. However, we have been clear that the Commission established to consider the opportunities and objectives for tackling congestion around Newport will have first call on the money that would otherwise have been set aside in developing its proposals. Any such proposals would still of course be subject to the usual Business Case and value-for-money considerations.

As the First Minister has said, we do not want the work of the Commission to be limited to designing solutions that would allow it to meet a specific budget. We will allow the Commission the freedom to undertake its work, before assessing the affordability of its recommendations in addressing the transport challenges in South East Wales.

I expect that some measures the Commission consider will have broader potential impact than just south east Wales. Where that is the case I expect that the Commission may make recommendations that feed into the current development of a new Wales Transport Strategy which is, quite timely, in development now. This method would ensure that the Commission's outputs appropriately address the regional issues, with linkage to national ones.

## **M4 Relief Road – further information on the reason for the decision**

The First Minister's reasons for not proceeding with the project are clearly set out in his decision letter published here: <https://gov.wales/m4-corridor-around-newport>. The First Minister's decision was based on the capital spending demands of the Welsh Government budgets, and the greater weight that the First Minister placed on the adverse impacts that the project would have on the environment than the Planning inspector did.

Significant changes have occurred in the context of the scheme since the draft Orders were published in March 2016. These being climate change emergency, biodiversity loss, heightened concern over air quality and of course Brexit.

The decision making process was quasi-judicial and a matter of judgement for the First Minister alone taking into account the Inspector's report and accompanying advice from officials.

The First Minister consulted with Cabinet on 29 April 2019 regarding wider spending priorities, rather than the merits of the M4 Project, and the minutes of that meeting have since been published.

As the Welsh Government had previously made clear before the orders decision was made, given the significance of the M4 project to Wales and the strong feelings on all sides of the Assembly, it would, once the orders process had been completed by the First Minister, bring forward a debate and a vote in government time. This was brought forward on 25 June.

## **Apprenticeships**

Whilst the matter you raise falls to the Minister for Education, we are currently finishing the planning arrangements linked to the commencement of the Degree Apprenticeship evaluation. The Welsh Government and the Higher Education Funding Council for Wales (HEFCW) will use the evidence from the evaluation to help inform their future approaches.

The first apprentices started in September 2018. The duration of the apprenticeship is generally three years so the first cohort will start to graduate from summer 2021. Many of the outcomes for the employer, the apprentice and the wider economy will not be accrued until after that time. However, we anticipate that the evaluation will provide early emerging evidence on the impact of the programme. The Minister for Education will be making a decision before the end of this government's term, in consultation with HEFCW, on future priorities and investments. In addition to evidence from the evaluation consideration will be given to evidence of demand (including that from Regional Skills Partnerships) and available budget.

Yours sincerely



**Ken Skates AC/AM**

Gweinidog yr Economi a Thrafnidiaeth  
Minister for Economy and Transport

**Annex A - Construction Cost Estimate Tracker during M4 Project Public Inquiry**  
**(£m, exc VAT, Q4 2015 price base)**

<b>Component</b>	<b>Scheme Costs (December 2016 Revised Economic Appraisal Report)</b>	<b>Eastbound off-slip net additional costs</b>	<b>Updated Scheme Costs (March 2017 Revised Economic Appraisal Report Supplement)</b>	<b>Newport Docks Mitigation, Bridge Protection Works and extension of PLI net additional costs</b>	<b>Updated Scheme Costs (December 2017 Revised Economic Appraisal Report Supplement No.2)</b>
Preliminaries including Traffic Management	£212.0	+£1.1	£213.1	-	£213.1
Roadworks	£268.0	+£1.2	£269.2	-	£269.2
Structures	£296.9	+£0.1	£297.0	+£17.5	£314.5
Landscaping and environmental works	£44.8	+£0.1	£44.9	-	£44.9
Works by other authorities	£38.3	+£0.5	£38.8	-	£38.8
Land and Compensation costs	£92.0	+£0.3	£92.3	-	£92.3
Risk and Optimism Bias	£141.3	(+£1.5 less £4.8) = - £3.30	£138.9	-£17.5	£120.4
<b>Project Estimate excluding VAT and Inflation</b>	<b>£1,093.2</b>	<b>-</b>	<b>£1,093.2</b>	<b>-</b>	<b>£1,093.2</b>
Key Stage 4 Costs	£22.0	NA	£22.0	+£22.0	£44.0
Reclassification and reconfiguration of Caerleon Junction[1] (Including Optimism Bias)	£16.2	NA	£16.2	-	£16.2
Newport Docks Work	-	-	-	+136.3	£167.5
Newport Docks Works – Risk and Contingencies	-	-	-	+£31.2	
<b>Total Costs</b>	<b>£1,131.3</b>	<b>-</b>	<b>£1,131.3</b>	<b>+£189.5</b>	<b>£1,320.8</b>

## Annex B – Breakdown of the revised £1.57bn quote

	2015 Prices	2019 Prices
Base Price	1,321	
Less key stage 4 costs	(44)	
<b>Revised Expenditure</b>	<b>1,277</b>	<b>1,382</b>
Add Irrecoverable VAT	170	184
<b>Revised Total (including irrecoverable VAT)</b>	<b>1,447</b>	<b>1,566</b>