

Adran yr Economi a'r Seilwaith
Department for Economy and Infrastructure



Llywodraeth Cymru
Welsh Government

The M4 Motorway (Junction 23 (East of Magor) to West of Junction 29 (Castleton) and Connecting Roads) and The M48 Motorway (Junction 23 (East of Magor) Connecting Road) Scheme 201-

The M4 Motorway (Junction 23 (East of Magor) to West of Junction 29 (Castleton) and Connecting Roads) and The M48 Motorway (Junction 23 (East of Magor) Connecting Road) (Amendment) Scheme 201-

The London to Fishguard Trunk Road (East of Magor to Castleton) Order 201-

The M4 Motorway (West of Magor to East of Castleton) and the A48(M) Motorway (West of Castleton to St Mellons)(Variation of Various Schemes) Scheme 201-

The M4 Motorway (Junction 23 (East of Magor) to West of Junction 29 (Castleton) and Connecting Roads) and the M48 Motorway (Junction 23 (East of Magor) Connecting Road) and The London to Fishguard Trunk Road (east of Magor to Castleton) (Side Roads) Order 201-

The Welsh Ministers (The M4 Motorway (Junction 23 (East of Magor) to West of Junction 29 (Castleton) and Connecting Roads) and the M48 Motorway (Junction 23 (East of Magor) Connecting Road) and the London to Fishguard Trunk Road (East of Magor to Castleton)) Compulsory Purchase Order 201-

The M4 Motorway (Junction 23 (East Of Magor) to West of Junction 29 (Castleton) and Connecting Roads) and The M48 Motorway (Junction 23 (East Of Magor) Connecting Road) (Supplementary) Scheme 201-

The Welsh Ministers (The M4 Motorway (Junction 23 (East Of Magor) to West of Junction 29 (Castleton) and Connecting Roads) and The M48 Motorway (Junction 23 (East Of Magor) Connecting Road) and The London to Fishguard Trunk Road (East of Magor to Castleton)) Supplementary Compulsory Purchase Order 201-

Summary Proof of Evidence

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Welsh Government, Port Economics

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1. Personal Details

1.1 Personal details

- 1.1.1 I am Mr Andrew Meaney, Partner and Head of Transport, Oxera Consulting LLP, Park Central, 40/41 Park End Street, Oxford.
- 1.1.2 I am a professional economist with more than 15 years of experience working in the field of transport economics. I hold an MSc in Economics and Finance from Warwick Business School, and a BSc in Economics from the University of Bath.
- 1.1.3 I have expertise in analysis of business profitability and rates of return, assessment of the impact of government policy and infrastructure interventions, and transport economics (including valuing time savings and traffic forecasting). I have led a range of projects in the ports and maritime sector.
- 1.1.4 I have experience of acting as an expert witness, having given evidence to Parliament, commercial courts and regulatory and competition authorities on a number of occasions.

2. Introduction and Scope

2.1 Overview

- 2.1.1 I understand that the Scheme comprises the construction of: ¹ i) a new section of motorway south of Newport and complementary measures such as reclassifying the existing M4 as a trunk road; ii) a new M4/M48/B4245 connection; and iii) walking- and cycling-friendly infrastructure.
- 2.1.2 In March 2016, the Welsh Government published Draft Orders,² which comprise the legal powers to establish a line,³ modify the side roads, purchase land, and put in place any other rights needed to deliver the Scheme. These included a Draft Compulsory Purchase Order (CPO),

¹ Government of Wales (2016), 'M4 Corridor around Newport Statement of Case Part I', August, paragraph 1.4.19.

² Government of Wales (2016), 'Draft orders', <http://gov.wales/topics/transport/roads/schemes/m4/corridor-around-newport/draft-orders/?lang=en> (accessed on 25 September 2016).

³ This provides the Welsh Government with the powers to build a new length of trunk road.

which grants the Welsh Government legal powers to acquire the land needed to undertake the Scheme.⁴

2.1.3 Among the land owners affected by the draft CPO is Associated British Ports (ABP). Its site at Newport Docks is a cargo port located on the western bank of the River Usk, and includes two docks (the North Dock and the South Dock).⁵ ABP has a statutory undertaking at Newport Docks.

2.1.4 I understand that under Section 16 of the Acquisition of Land Act 1981 (the 1981 Act)⁶ there is provision for qualified protection against compulsory purchase of land where the land is that of a statutory undertaker.⁷

2.1.5 ABP has made two separate objections to the Scheme: i) in a letter dated 29 April 2016, Winckworth Sherwood, on behalf of ABP, issued a formal objection to the Draft Orders;⁸ and ii) in a letter dated 29 April 2016, ABP made the necessary representation to the Secretary of State for Transport under the 1981 Act.⁹

2.2 Statutory undertaking and the 1981 Acquisition of Land Act

2.2.1 Section 16 of the 1981 Act states that:¹⁰

The compulsory purchase order shall not be confirmed or made so as to authorise the compulsory purchase of any land as to which the appropriate Minister is satisfied as aforesaid except land as to which he is satisfied that its nature and situation are such—

(a) That it can be purchased and not replaced without serious detriment to the carrying on of the undertaking, or

⁴ Highways, Wales (2016) The Highways Act 1980 and The Acquisition of Land Act 1981 the Welsh Ministers (the M4 motorway (Junction 23 (east of Magor) to west of Junction 29 (Castleton) and connecting roads) and the M4 motorway (Junction 23 (east of Magor) connecting road) and the London to Fishguard trunk road (east of Magor to Castleton)) Compulsory Purchase Order 201, 23 March.

⁵ ABP (2014), 'Newport Plan Map 2014'.

⁶ Acquisition of Land Act (1981), Section 16(2), <http://www.legislation.gov.uk/ukpga/1981/67>.

⁷ Statutory Undertaker is defined in Section 8 of the 1981 Act.

⁸ Objection Letter to Proposed Compulsory Purchase Order from Winckworth Sherwood dated 29 April 2016.

⁹ ABP Objection Letter dated 29 April 2016. I understand that ABP qualifies as a statutory undertaker, as defined in Section 8 of the 1981 Act.

¹⁰ Acquisition of Land Act (1981), Section 16(2), <http://www.legislation.gov.uk/ukpga/1981/67>.

(b) That if purchased it can be replaced by other land belonging to, or available for acquisition by, the undertakers without serious detriment to the carrying on thereof, and certifies accordingly

- 2.2.2 In this report, I present my consideration of whether the Scheme would cause 'serious detriment' to ABP's statutory undertaking at Newport Docks.
- 2.2.3 I have reviewed a number of previous cases of CPOs involving a statutory undertaker. I do not consider these to have set out a clear definition of 'serious detriment' or an economic framework for testing whether a detriment is serious.
- 2.2.4 In the absence of a clear definition, as an economist, I consider that I can most usefully assist the Inspector by assessing the impact of the Scheme on these statutory duties¹¹ where there is a clear and measurable financial impact on the undertaker. To do this, I consider the likely costs and benefits, to assess the impact that could occur to the statutory undertaking (i.e. ABP) as a result of the Scheme.
- 2.2.5 These findings take into account the various costs that ABP would incur at Newport, including any lost revenues from maritime operations as a result of restrictions that the Scheme may place on shipping vessels' access to the North Docks, and any lost rental income from the loss of land resulting from the Scheme. I also consider the likely benefits to Newport Docks arising from the Scheme, such as improved connectivity of the Tenants via improved road connections, and cost savings for the port operator.
- 2.2.6 These benefits offset the likely costs incurred by ABP at Newport to some degree. I therefore consider the present value to ABP of these costs and benefits in two scenarios; i) one in which the Scheme is implemented, and ii) one in which the Scheme is not implemented. The difference between these two levels determines my estimate of the 'detriment' to ABP at Newport Docks arising from the Scheme.
- 2.2.7 I do not estimate the level of compensation that would be required to make ABP whole following the implementation of the Scheme. I would

¹¹ On the basis of the Transport Act 1981 c. 56 Part II Section 14(3).

consider that elements of my analysis such as rental and shipping revenue losses might be within scope of a compensation payment. However, there are other costs such as loss of buildings that I do not consider. Nonetheless, if there is a negative overall impact, this could be offset by compensation payments. From an economic perspective, I would see this as a relevant consideration when taking a view on the overall impact of the Scheme.

2.3 Approach to uncertainty

- 2.3.1 I understand that the Welsh Government has requested financial and operational data from ABP and the Other Objectors, and that disclosure from these parties has been limited.¹²
- 2.3.2 In the absence of detailed data, I have used publicly available information and my judgement to inform my analysis. Where publicly available information is not sufficient to inform a robust conclusion, I have produced upper- and lower-bound estimates. As a result, I have obtained a range of estimates for detriment to ABP's operation at Newport Docks. I also report a central case, which I calculate as the mean of the high and low points of this range.
- 2.3.3 If further information were to become available I would seek to reconsider my Proof of Evidence.

2.4 Summary of results

- 2.4.1 I have assessed three main costs and benefits of the Scheme over the period to 2035, which is in line with the time horizon for ABP's Draft Master Plan Consultation.¹³ I use a growth model to estimate the terminal value of Newport Docks beyond 2035.
- 2.4.2 First, I have considered the impact of changes to shipping traffic to ABP drawing on the Proof of Evidence of Mr Jonathan Vine.¹⁴ I find that the reduction in vessel traffic could lead to a loss of revenue of £8.5m. This assumes that there is no berth reallocation of vessels to South Dock or

¹² For instance, see Letter from Michael Stacey to Martin Bates dated 27 May 2016 and Letter from Matthew Kennerley to Martin Bates dated 23 September 2016.

¹³ Associated British Ports (2016), 'The Port of Newport Draft Consultation Master Plan 2015–2035'.

¹⁴ The Statement of Evidence of Mr Jonathan Vine, 1.21.1

use of alternative vessels that could enter the North Dock unimpeded by the bridge. Mr Jonathan Vine has assessed these factors in his Proof of Evidence¹⁵ and found that they would reduce the overall impact on shipping traffic considerably. By adopting these assumptions I find that the impact on shipping revenues would be negligible.

- 2.4.3 Second, I estimate that the loss of land and associated rental income to ABP would result in a loss of value equivalent to £8.0–£16.4m. The range on the alternative shipping scenario allowing for berth reallocation and alternative vessels is £5.5m–£14.0m.
- 2.4.4 Third, the time savings resulting from the Scheme would also result in betterment for all undertakings at the port. This would be expected to be reflected in an increase in the Tenants' willingness to pay for land. I value this betterment at £0.6m. I also estimate that the reduced activity at the port would generate cost savings for ABP.
- 2.4.5 Overall, taking my projections of costs and benefits over the period to 2035, and discounting at ABP's cost of capital, I estimate the lower bound of the detriment to Newport Docks to be £4.2m and the upper bound to be £7.9m, depending on the rental income loss incurred by the Scheme, with a central case of £6.0m.¹⁶ This translates to between 3.1% and 5.8% of Newport Dock's present value, with a central case of 4.4%.
- 2.4.6 Using the alternative shipping scenario including the use of alternative vessels and berth reallocation described above, my estimate of the detriment would be £2.2m–£6.0m. This would be equivalent to 1.6–4.3% of the port's present value.

¹⁵ This is detailed in Section 3.7 of my Proof of Evidence. See also The Proof of Evidence of Mr Jonathan Vine, WG 1.7.1. Table 6-8.