



Briefing 14/10 February 2014

## Future of Highways Funding in England

To: all highways and street lighting contacts in England

For info: all other contacts

### Key issues

Link between efficiencies and funding highlighted

Consideration of changes to the existing formula for block grant to each local highway authority

Potential to top slice the funding for a competition bid fund for major maintenance schemes

### 1. Introduction

The Department for Transport (DfT) have recently published 'Gearing up for efficient highway delivery and funding' which seeks to stimulate debate and looks for views and evidence on the suggested mechanisms for the distribution of £5.8 billion funding for local highways maintenance from 2015/16 to 2020/21. A series of regional meetings are being held to generate further ideas and feedback from local highways authorities with this being a discussion document for those events. The contents of this document are applicable to England (outside London) only. It includes a consideration of the existing formula for block grant and whether a top slice of the funding should be used for a competition bid fund for major maintenance schemes.

The foreword to the document by Robert Goodwill MP Parliamentary Under-Secretary of State for Transport, identifies the essential nature of the highway network to the economy and the need to ensure it is maintained as well as highlighting the fact that investment in new assets and maintenance of existing assets is a central part of the Government's infrastructure strategy. £12 billion was allocated in the Spending Round announcement in June 2013, half to the Highways Agency for the renewal of the country's motorways and trunk road and half to local highway authorities to invest in local highway maintenance and renewal, over the course of the next parliament. The link to the Highways Maintenance Efficiency Programme is made and the need to achieve maximum returns from resources allocated for highways maintenance through driving efficiencies is re-iterated.

The document can be read [here](#). The policy will be issued as a consultation paper in summer 2014 and APSE will be responding to that paper.

### 2. Current funding arrangements

As noted above the Government announced in June 2013 that it would be making available £5.8 billion capital - £976 million each year - over the course of the next parliament to tackle highway maintenance on the local highway network and described it as a 'significant increase on past levels'

The document notes existing arrangements for funding to provide some background to the issues discussed. Highway maintenance funding can be allocated from capital or revenue sources. Capital is primarily for structural renewal of highway assets (including roads, footways, bridges, drainage and lighting). Maintenance expenditure, principally funded by revenue, is mainly for reactive purposes and covers repair of worn or damaged roads and facilities, either short term patching or a permanent replacement. In addition to maintenance of the road surface itself, it also includes the cost of lighting, footway repair and cyclical maintenance such as cleaning activities (of assets such as the drainage system), grass cutting and vital services such as snow and ice clearance, and salt spreading.

Planned, preventative maintenance, which involves resurfacing at regular intervals, is the most cost effective method of keeping the road surface in good repair. Indeed the Asphalt Industry Alliance suggest that it is at least twenty times more expensive to patch and mend than it is to undertake long lasting repairs, with preventative treatments postponing such costly interventions and providing the option for more financially sustainable options to be planned.

The DfT provides capital funding to local authorities for highways maintenance. Revenue is provided by the Department for Communities and Local Government (DCLG) through Revenue Support Grant.

### **3. Themes**

The document focuses on 3 themes for discussion.

#### **3.1 Incentivising highways maintenance efficiencies in funding allocations**

The document notes that good asset management is about both making best use of existing funds and providing a clear evidence base to justify the need for investment in highway maintenance. It goes on to say that applying the principles of asset management will help local highway authorities achieve a more structured long term approach to maintaining their networks and assist them to resist expensive, short-term actions.

It states that many local authorities understand the potential benefits of good asset management, but often cite a lack of resource as the main reason for not adopting good practice so resulting in a short term, reactive approach which is inefficient, allows more defects to develop and is more costly in the longer term. It notes the approach taken by DfT to encourage uptake of asset management techniques over recent years.

Having stated that despite this encouragement, not all local authorities have robust asset management strategies in place, the document notes that DfT thinks it is now an appropriate time to incentivise all local authorities to take up asset management to ensure that the sector achieves the most it can from the allocated resources. One way of encouraging the full scale take up of asset management is by rewarding those authorities that have an asset management strategy. The document notes that this could be implemented by making a proportion of the overall funding available to each local highway authority contingent on demonstrating that an up-to-date asset management strategy is in place (and is in use).

The approach would mean that every local highway authority eligible to receive funding would receive a baseline settlement, regardless of whether an up-to-date asset management strategy is in place. Additional funding would then be provided to those local highway authorities that demonstrate that they have an asset management strategy in place and can demonstrate use of that strategy.

DfT are interested to hear views on what proportion of the funding should be provided on this basis - 10% is the example quoted. Eligibility for this additional funding could be determined by the authority's Section 151 Officer (Finance Officer) declaring that their authority has an asset management strategy in place and that they will publish this on their website.

The document refers to the fact that HMEP has promoted the efficiencies agenda for some time and that now is a good time to give this work a renewed impetus based on the recognition that although some local authorities have made significant progress in this regard, many have not. DfT thinks that there is scope to do much more across the sector and that taking a holistic approach to planning and delivery can be 'game changing'. One way to encourage local highway authorities to adopt efficiency principles would be to reward them financially. The document states that as each local authority is at a different stage of a journey to transform services and deliver efficiencies, it would not be appropriate to reward those authorities which are more advanced in their journey. What should be rewarded is a commitment by every local highway authority to transforming their highways maintenance service to achieve efficiencies.

As a result a proportion of the Block funding could also be contingent on local highway authorities adopting highways maintenance efficiency principles, such as those developed through HMEP. Again, this approach would mean that every local highway authority eligible to receive funding would receive a baseline settlement. Additional funding (for example 10% of the overall funding pot) would then also be provided if a local highway authority is able to demonstrate that they are adopting efficiency principles.

#### **3.2 A Highways Maintenance Challenge Fund**

In the past few years opportunities for capital funding for major maintenance projects have come from Local Authority Majors Funding or via the Private Finance Initiative and, more recently, for medium sized schemes, the Local Pinch Point Fund. From 2015/16, the Local Growth Fund will be the main source of funding for both new infrastructure projects and maintenance schemes. However, we think there may be other projects that may not easily be funded through this funding route.

The document states that most of England's highway infrastructure is not new and that an ageing asset implies the need for more funding as older infrastructure is more costly to maintain than new. In short, many areas of England may now be entering an era where a growing proportion of its public highway is completing its first full life-cycle and needs to be dealt with. It notes that one of the mechanisms that could have a real impact on improving the local road network would be to assign a proportion of the highways maintenance budget to a new Challenge Fund that would be available to local highway authorities in England to bid for major maintenance projects that are difficult to fund through the normal block allocations they receive.

As a further incentive to drive the efficiencies agenda, there is an option for eligibility to bid being dependent on the adoption of efficiency principles like those described above.

The suggestion in the document would be to set aside up to £1.2 billion for the whole Fund – up to £200 million for each year from 2015/16 to 2020/2, scalable depending further consideration. This would mean that around £770 million would be allocated to local highway authorities on the basis of a formula and around £200 million would be awarded on a competitive basis.

Funding would be awarded on a competitive basis. It is also likely that there would be a number of opportunities to submit bids to ensure that there is a pipeline of projects throughout the six year funding period. Funding could be provided for one-off projects or for a programme of maintenance improvements. We would also expect the usual principles of additionality to apply to any fund; e.g. there would be an expectation that the funding would not replace the Highways Maintenance Block allocation if a bid were to be successful.

Cycleway and footway maintenance – these are singled out in the document with the case made for ensuring they remain well-maintained, are carefully designed, safe and attractive.

The document is seeking views on whether to top slice around £50 million a year from the £976 million being made available for local highway authorities to encourage cycleway and footpath maintenance, and improvements to the existing road network or where these are segregated.

Two potential options have been identified for how any funding would be made available. One is for the funding to be made available as part of the challenge fund (noted above). The other is to have a specific Fund for local authorities to submit bids to the Department specifically for the maintenance and improvement of footpaths and local cycle networks.

Alternative funding mechanisms - Since 1999 the Department has provided funding to a number of local highway authorities to upgrade and maintain street lighting and highways infrastructure through the PFI. While the Department has no plans to introduce a similar programme through its successor, PF2, we are keen to seek views on how alternative funding mechanisms could be used to fund major highways maintenance projects, in particular street lighting renewal and upgrade. This is because there is growing evidence to suggest there is significant opportunity to make long term savings on energy usage by upgrading street lighting columns and investing in new technologies such as LEDs and Central Management Systems (CMS).

One mechanism may be to fund one or more 'pathfinder' invest to save projects through the Challenge Fund mentioned above and/or to produce guidance documentation to enable local authorities to achieve the savings which may be possible through the updating of street lighting infrastructure.

There may also be an opportunity to use alternative funding sources, such as Prudential Borrowing, to make any investment which central government provides, go further. There are examples of local authorities which are using prudential borrowing as means of investing in the maintenance of their highways

We would like views on how this funding should also be used in conjunction with other alternative funding to support major maintenance projects.

### **3.3 Highways Maintenance Block Formula changes**

The document makes some further funding options which could be considered. These are set out below.

Detrunked roads - Detrunking allows the Highways Agency to concentrate on the operation of the strategic trunk road network, whilst enabling local authorities to consider their own priorities for the improvement of non-core routes. The de-trunking process was largely completed in 2010 with the transfer of some 1,850 miles of roads to local authorities which are now established as assets under the ownership of local authorities.

The document states that the Department thinks that Element A (detrunked roads making up 3.3% of the Block Formula) should no longer be considered as a discrete element, but should instead be part of Element B - lane length of the authority's A roads (making up 62.9%). This would capture the lane length of all local authority 'A' roads, including detrunked roads.

Local highway authorities with Private Finance Initiatives - There are over 30 local highway authorities that have a have street lighting improvement and maintenance projects funded through the Private Finance Initiative (PFI). These authorities receive PFI grant from the DfT for the upgrade and maintenance of their street lighting asset but still receive the full amount of Highways Maintenance Block Grant. The question raised by the document is whether they should also receive Element D of the Block Formula for street lighting as well.

Weightings of the carriageways, bridges and street lighting elements - the formula has been established to try to distribute available funding in a way that is fair and best reflects maintenance needs of local authorities. This currently stands as Roads (66%), Structures (29%) and Street Lighting (5%) (see Table 1 in Annex) . The Department is keen to receive views and evidence on whether these weightings remain appropriate and also whether the specific elements in Table 2 (see Annex) remain appropriate.

Road usage and traffic - The current funding formula does not take into account traffic volumes. The document notes that traffic volume is a key variable in terms of affecting the rate of carriageway deterioration and that there is an option to base part of the funding allocated through the Block Grant on traffic volumes. This would mean that those areas which are more heavily trafficked could receive more funding. They are looking for views on this suggestion too.

#### **4. Consultation Questions**

- Do you think local highway authorities who can clearly demonstrate that they have a robust asset management strategy in place (and is in use) should be rewarded through funding allocations?
- What proportion of funding do you think should be linked to asset management?
- How else can the take up of industry good practice such as highway asset management and highway asset valuation be encouraged?
- Do you think that those local authorities that can clearly demonstrate that they are adopting and delivering efficiency principles should be rewarded in their funding allocation?
- What proportion of funding should be linked to the adoption and delivery of efficiency principles?
- Are there other steps you suggest could be taken to encourage the take up of efficiency principles?
- Do you think funding should be top sliced from the total local highways maintenance funding from 2015/16 to 2020/21 to be used for a competition based Highways Maintenance Fund'?
- If you agree with the above proposition, do you think that £1.2 billion (£200m per year) should be the amount to be top sliced over the six year period?
- Do you think that eligibility to bid for projects in the Fund should be conditional on local authorities signing up to efficiency principles?
- Do you think that the maintenance and improvement of cycleways and footways should be eligible for funding from the proposed Challenge Fund?
- Would you prefer a specific discrete Fund for cycleways and footways maintenance, to be top sliced from the £976 million funding provided for local highways maintenance funding per annum?
- Do you think the Department should use the Challenge Fund to support local authority street lighting invest to save projects?
- Do you have any other suggestions about how alternative funding mechanisms could be used to support major maintenance projects?
- Do you think the detrunking element of the formula should be removed and funding distributed on the basis of Elements B to D in Table 0.1, Annex A?

- Do you think local highway authorities that receive funding for street lighting through the PFI should also receive the street lighting element (Element D) of funding from the Highways Maintenance Block?
- Do you think that weightings for each element in the funding formula should be roads 66%, structures 29% and lighting 5%?
- Do the specific elements used to distribute funding (Table 0.2, Annex A) remain appropriate?
- Do you think traffic volumes data should be an additional element of the funding formula?

## 5. APSE Comment

APSE welcomes the fact that the Department is encouraging interaction with practitioners in the sector and hope that it may become a permanent approach. APSE would encourage all involved in the sector to put forward their views.

The regular reviewing of funding arrangements is also welcomed by APSE but it does not mean that change is needed for changes sake. Allocating part of the funding on the basis of a service signing up to a particular approach does not ensure an outcome. It is recognised that an asset management approach is more effective than a reactive, worst first approach to highways maintenance but merely signing up to a generic approach guarantees nothing. An approach can be interpreted in any number of ways and lead to many outcomes.

There are a number of concerns regarding the value of a Challenge Fund and indeed funds which are allocated on the basis of a bidding exercise between local authorities in general. Any funds which are available must be allocated on the basis of need, for in this case, highways related investment. By allocating funds on the basis of a beauty contest, the result is that the schemes which are successful are considered more worthy than those which are not successful. This is clearly not the case in reality – often the allocations are made on the basis of an ability to put bids together eloquently rather than on the actual impacts of the investment on the local area. The document highlights the need to ensure maximum returns from resources and this must be applied across the board – there is a need to ensure consistency across all scheme bids.

Although the document states that the funds allocated in the Spending Review reflect the largest allocation of its type, the introduction of a Challenge Fund means that some local authorities who would have benefitted if that element of the funding remained within the Block funding. The document notes that funding for some larger projects may be difficult to find through existing arrangements but does not justify the introduction of a bidding round and Challenge Fund. Indeed such a development would add a further level of difficulty for those looking for funds.

Localism has been a major theme of this government. It seems appropriate to allocate as much of the funding as possible as Block funding thus enabling the local authority to apply its knowledge and experience of local needs and priorities when spending it rather than having to use scarce resources to bid for restricted funds which make up the Challenge Fund.

The large budget cuts experienced by all local authorities have been severe and one of the most pressing needs for councils now is certainty in the level of funding so they are able to plan effectively for the future – splitting funding streams and allocating some to a competition does not help councils plan their future services and undermines the need for a long term asset management approach to highways and street lighting assets.

Local authorities have lost many experienced staff over recent years as they try to cut costs and having to put bids together to access funds they would otherwise have received as grant will take up valuable staff time and resources. The alternative might be to pay consultants' rates for an outcome which is by no means certain. Neither option is attractive or guarantees value for money.

## 6. Responses

APSE will be responding to the consultation paper in summer 2014 but is happy to collate members' thoughts on these issues and feed them back prior to that. Please forward any comments to Phil Brennan at [pbrennan@apse.org.uk](mailto:pbrennan@apse.org.uk)

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## Annex

**Table 1 Highways Maintenance Block Formula Elements<sup>10</sup>**

Element		Percentage of funding
A	Detrunked Roads	3.30%
B	Roads	62.86%
C	Bridges	29.01%
D	Street Lighting	4.84%

**Table 2 Highways Maintenance Block Formula Factors**

Element	Factor	Maintenance Block Factors: Description
A	1	Lane length of the authority's detrunked roads
B	2	Lane length of the authority's A roads (on LA managed roads, excluding detrunked roads)
	3	Road length of the authority's B and C roads (on LA managed roads)
	4	Road length of the authority's unclassified roads (on LA managed roads)
	5	<i>Percentage of principal roads (A roads) where maintenance should be considered, as reported in the authority's NI 168 [See Note]</i>
	6	<i>Percentage of non-principal roads (B and C roads) where maintenance should be considered, as reported in the authority's NI 169 [See Note]</i>
C	7	Number of bridges assessed as needing, and scheduled to undertake, strengthening works estimated to cost more than £50,000
	8	Number of bridges assessed as needing, and scheduled to undertake, major maintenance works estimated to cost more than £50,000
	9	Number of bridges owned by the local authority with spans over 1.5m
D	10	Number of street lighting columns owned by an authority which are aged 40 years or more