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The Spending Review and Highways funding update

To: contacts in England, Scotland, Wales and Northern Ireland.

Key issues Spending Review puts pressure on unprotected government departments including DfT. Potential for cuts to highways funding Changes to guidance CoP and introduction of Roads Fund.

1. Introduction

This briefing covers the Spending Review 2015 and potential changes with regard to funding arrangements and highways infrastructure guidance.

2. Background

The Chancellor launched the Spending Review 2015 on 21 July 2015. The Review, which will be published on 25 November 2015, will set out how the Government will both invest in priority public services and deliver the £20 billion further savings required to eliminate Britain's deficit by 2019/2020.

The review document 'Spending Review 2015: A country that lives within its means' sets out how the Government intends to ensure Britain runs a surplus for the first time in almost twenty years in 2019/20 whilst delivering economic security for working people as well as making £12 billion savings from welfare and £5 billion from addressing avoidance, evasion and imbalances in the tax system..

The Treasury Chief Secretary, Greg Hands MP, has written to government departments asking them to draw up plans to model two scenarios of 25% and 40% savings within their resource budgets by 2019-20 in real terms.

In making these savings, the Spending Review reaffirms the government's commitment to protect invest in the NHS, defence and security, schools and Official Development Assistance.

Growth, productivity and devolution is a strong theme and the Spending Review 2015 will therefore prioritise spending in areas that drive productivity and growth. It refers to the need for the UK to make significant improvements to productivity across the regions, and further radical devolution of power within England, including by building a Northern Powerhouse and reference to developing city regions.

The review also highlights infrastructure as an essential contributor to raising productivity and economic growth, noting that on transport alone, the government delivered 60 major roads and local transport projects over the last Parliament including the completion of Kings Cross station and the tunnelling for Crossrail, while saving more than £500 million in project costs.

It notes that over the last Parliament the Government prioritised capital investment over day-to-day spending, and increased its capital spending against the plans it inherited. The Government has published the first National Infrastructure Plan as well as the first Roads Investment Strategy – a five year plan to deliver an unprecedented £15 billion of investment in strategic roads over the course of this Parliament.

3. Highways Funding

3.1 The DfT's five year plan for capital spending on local roads, £5.8 billion funding for local highways maintenance from 2015/16 to 2020/21, has been published and highway maintenance funding formula allocations were provided to individual local authorities on 23rd December 2014. This was seen as a positive move by local authorities who were able to plan ahead on the basis of five year funding allocations to a greater degree than they had previously. A great deal of consultation with local highways authorities was undertaken as part of the plan and it was promoted as a significant step towards appropriate levels of investment into the highway infrastructure.

However, the scale of the scenarios put to departments including the Department for Transport mean that there is a chance of the £5.8bn allocation being reduced in line with departmental cuts. 25% or 40% cuts to departmental budgets will in all likelihood result in changes to the regime introduced only 6 months ago.

3.2 A dedicated Roads Fund for England to be established by the end of decade using ring fenced money coming directly from vehicle excise duty and to be used to protect the highways network, was also announced in the Budget. The Chancellor stated that every single penny raised in vehicle excise duty in England will go into that fund to pay for the sustained investment of the road network. It has subsequently emerged that this funding will all go to the strategic network. Although the fund has been welcomed as investment in the wider network, the fact that 98% of the entire network is local in nature and yet will receive none of the funds is seen as unfair amongst councils.

3.3 Work on a draft version of 'Well Managed Highways Infrastructure', the new code of practice for highways engineering and maintenance, includes a call to local authorities to develop their own levels of service through a local, risk-based approach. It notes that highways departments might have to produce financial plans for all long, medium and short term maintenance activities as well as a works programme for a period of 3 to 5 years. If these changes remain in the final document they will be a further responsibility in highways authorities. Clearly this kind of activity takes up time but it should not be too onerous to those highways authorities who have good procedures in place.

4. APSE comment

Reductions in revenue funding have left a significant problem for the highways sector. Investments in schemes to address specific areas of high volume traffic, build bypasses or new structures are certainly appreciated. However the existing network requires constant investment and this need will not diminish. The asset management approach much promoted by DfT and taken up by the sector, promotes better management of the asset – something which cannot be completed without adequate resources. The DfT's £5.8bn highways allocation supported this approach by providing a base for longer term planning. However if the fund starts to be cut to meet further reductions in DfT spending – as part of the Spending review – questions will start to be asked about the value of the consultation and planning exercise undertaken to produce the allocation.

The cuts that have been made in the form of reductions in grants from central government passed on to service revenue budgets have prompted responses in terms of savings initially as incremental change to highways services. There is real pressure on revenue budgets now even though investment options appear to have increased. Access to funds such as the Local Growth Fund and pinch point monies might be welcome but is in no way sufficient to make up for other cuts to budgets.

Calls for a portion of the new Roads Fund to be shifted from the strategic to the local network might be one option should further cuts to the allocation appear but, as the cuts are likely to impact on Highways England just as on all other organisations they will also be fighting to retain 100% of the fund.

The Incentive and Challenge elements of the 2015-16 to 2020-21 funds appear ripe for reduction. Unlike the Needs element, which is a formula based grant, these two elements are based on a figure which simply represents a proportion of a total that has been set aside from the total £5.8bn. The criteria for the way the Incentive and Challenge elements is allocated could remain the same and function as they do now whether the budget was smaller or larger. As such it seems these budgets might be more readily reduced if there is pressure on highways funding to be cut.

Changes to 'Well Managed Highways Infrastructure' may mean some extra planning but the real concern is the balance between asset management and available resources. It is acknowledged within the sector that there have been great strides in terms of asset management plans and approaches being taken up by highways authorities but a lack of funding means the full impact that these developments might not emerge. Clearly this kind of planning takes up time but it should not be too onerous to those highways authorities who have good procedures in place.

The push for transformational change within the highways sector is growing following claims that virtually all incremental savings have been made. However the fact that there is a £12bn backlog of repairs to be addressed, taking an average of 13 years with an estimate of a 42% increase in road traffic by 2040 means that any approach to improving the way the network can be maintained and improved needs to be considered.

The self-assessment forms are promoting innovation and councils in collaboration with contractors and suppliers must seriously consider where they can make changes if the scenario of a 25% to 40% cut to funding has an impact on investment in the network.

The value of the highways network has been mentioned elsewhere by Government as vital to the economic performance of the country and although this document refers to the need for growth it is difficult to see how highways infrastructure will contribute to that without adequate funds.

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