



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Transport and Highways Agency

Maintaining strategic infrastructure: roads

Summary

1 England's strategic and local road networks are our most highly valued infrastructure asset, at around £344 billion. The two networks comprise over 187,000 miles of roads. They include more than 61,000 bridges, numerous other features, such as embankments and retaining walls, and drainage systems. This infrastructure supports 90 per cent of passenger traffic and 68 per cent of freight movements. Maintaining it so that it is safe, serviceable and reliable is vital for the economy and the social well-being of communities.

2 The Department for Transport (the Department) is responsible for:

- operating, maintaining and improving the strategic road network in England (2 per cent of the road network), through the Highways Agency (the Agency); and
- providing guidance on network management, setting the legislative and policy framework for road maintenance and allocating capital funding and private finance initiative grants to local highway authorities.

3 The local road network, which is 98 per cent of all roads, is managed and maintained by 152 local highway authorities, including Transport for London.

4 In 2011, we reported on the planned reductions to road maintenance budgets in *Reducing costs in the Department for Transport* following the Spending Review 2010. The Department proposed to cut budgets by £1.2 billion. The Department for Communities and Local Government planned to reduce its grant to local authorities by 28 per cent in real terms over the four-year period. We concluded that these reductions risked deterioration in road quality and higher long-term costs, and might not be sustainable. The Committee of Public Accounts was also concerned that the Department:

- did not fully understand the likely impact of reducing road maintenance budgets; and
- expected local highway authorities to find savings of £223 million but was not clear how they would do this.

Scope of the report

- 5 In this report we examine whether highways authorities have:
- reduced road maintenance budgets as planned, how they have done so, and the consequences for the networks (Part One); and
 - the right structures and information to achieve long-term value for money on road maintenance (Part Two).
- 6 We focused on the Department's activities, and the local authority sector as a whole. Our audit approach and methods are in Appendices One and Two.

Key findings

Balance of funding

7 Injections of capital funding offset the reductions in revenue budgets.

The overall budgets for road maintenance have not decreased as much as planned because of the government's announcements of supplementary funding, often in the last quarter of the financial year, to address traffic bottlenecks and repair winter damage. The actual reduction in the Agency's budget will now be 7 per cent, rather than the 19 per cent announced in the Spending Review 2010, despite a cut in the revenue budget of 27 per cent. Capital funding for local highway authorities has increased by 3 per cent instead of the planned reduction of 15 per cent. However, revenue funding, which is for all local authority services, has fallen by more than planned – around 33 per cent rather than 28 per cent (Figures 2 to 4 and paragraphs 1.12 to 1.13).

8 The change in the mix of funding and lack of predictability had practical implications and may cost more in the longer term. The Agency's capital spending exceeded its revenue spending in 2012-13. Local highway authorities still spend more revenue on maintenance, but they told us that they were carrying out less routine activities, such as clearing gullies and inspection, which is essential to prevent water seeping into the road substructure. Highways authorities said that reducing the proportion of revenue to capital budgets further would make it difficult to maintain the condition of the networks (paragraphs 1.18, 1.19 and Figures 1, 5 and 6).

9 The condition of the strategic road network has improved but there is insufficient data to conclude on the local road network. The most recent data showed that the surface condition of the strategic network improved between 2003 and 2013. However deterioration may not yet be visible because the network is made of many materials and complex structures, some of which are hidden. The Department collects less data on the local road network. Public dissatisfaction about the surface and appearance of the networks has increased however (paragraphs 1.32 to 1.35).

10 The pattern of funding announcements and the planning cycle for maintenance, combined with having to spend money within the financial year, means that work peaks between September and March. Highways authorities plan their work programmes on indicative budgets, provided annually in December by central government. Actual funding is agreed in the spring and highways authorities revise their plans to fit budgets and do detailed design for the schemes. This means that most maintenance is done in the autumn and winter, which is less efficient because materials can be more difficult to handle in cold and wet conditions and daylight hours are shorter. As a result of the additional funding for emergency repairs, which is made available at the end of the financial year, almost all highways authorities need extra capacity from the market at the same time, which makes it less likely that they will get value for money (paragraphs 2.5 and 2.6 and Figure 14).

Optimising effort

11 Funding pressures have encouraged the Agency and local highway authorities to increase efficiency and innovation, but some measures may create long-term problems. The Agency's contractors are using incident support units to carry out small maintenance tasks rather than keeping them on standby and using depots and equipment across multiple contracts for the public sector. In local authorities, there was a mixed picture, with examples given of savings from changing methods for repairing potholes and refreshing road markings more regularly so that motorists can see clearly when street lights were dimmed. However, some services were being stopped, for example structural maintenance on drainage assets, and there were reductions in skilled maintenance staff (paragraphs 1.21 to 1.24 and Figure 8).

12 Changes to budgets in-year do not promote value for money. Infrastructure UK has reported that certainty of funding is associated with cost savings of 10 to 20 per cent for routine maintenance. 'Stop/start' funding makes long-term planning more difficult for highways authorities and contractors cited unpredictable income as a disincentive to invest in improving efficiency (paragraphs 2.5 to 2.6 and Figure 13).

13 The Agency has a robust inventory and data about the condition of road surfaces which it used to target its maintenance efforts, but there are gaps in the information or quality issues which mean it was not used well to make decisions. For example, the Agency has introduced a national maintenance programme so it can make decisions based on the entire network. However, its data and deterioration modelling on some assets, such as drainage systems, still requires improvement. The Agency has increased staff's commercial and asset management skills. There is further work to do and the Agency has begun to develop a detailed picture of what affects the costs of maintenance (paragraphs 2.8 to 2.11 and 2.13 to 2.15).

14 The extent to which local highway authorities use information to optimise road maintenance varied. The most effective authorities use information about their road network and the condition of their assets to help councillors make well-informed maintenance decisions. This helps counteract local pressure to do 'worst first' maintenance. However, at least 45 local highway authorities had not yet completed an asset management plan when surveyed in early 2014 (paragraphs 2.4, 2.12, 2.16 to 2.17 and Figure 16).

15 There are good examples of highway authorities working together locally to reduce costs and make improvements. Over half of local highway authorities are now members of maintenance alliances. These help them to share best practice and make savings on procurement. The London Highways Alliance Contract, developed as a joint initiative between Transport for London and London's boroughs, extends collaboration by encouraging the four area-based contractors and 34 highway authorities to work together across boundaries, provide joint support, share best practice and success factors in performance and encourage innovation across and through the supply chain (paragraph 1.30 and Figure 9).

The Department's response to these challenges

16 The Department is seeking to tackle the problems that are hindering cost-effective road maintenance. In June 2013, the government set out plans to change the Agency's status to a limited company wholly publicly owned by the government, with six-year funding certainty for capital projects and maintenance, which has the potential to secure better value for money. The Department is also looking at how it allocates the annual grant of £976 million (April 2015 to March 2021) for maintenance to local highway authorities. It is, however, unable to guarantee that further ad hoc funding announcements will not be made throughout that period (paragraphs 2.19 and 2.21).

17 The Department has promoted best practice in local highways maintenance through the Highways Maintenance Efficiency Programme. This has also improved collaboration, but how far local highways authorities are involved varies widely. The Department has identified that it needs to target the Programme at those local highway authorities that need most help and give a more compelling, quantitative case for preventative maintenance (paragraphs 1.25 to 1.26 and 2.22 to 2.23).

Conclusion on value for money

18 There are positive signs of innovation by highways authorities in response to funding pressures on road maintenance. We believe that the Department understands the threat to value for money from uncertainty of funding. It is setting up a government company to address the problems in maintaining the strategic road network. However, this measure in itself will not be enough. Unless funding for both road networks is made more predictable and the allocation between capital and revenue balanced better, public value will be lost.

Recommendations

19 The Department should build on the steps that it has already taken to improve value for money by:

- a** working with HM Treasury and the Department for Communities and Local Government to address the barriers to long-term planning for road maintenance, such as the lack of predictability of funding for local highway authorities and the split between revenue and capital funding;
- b** improving its understanding of the current condition and future needs of the local road network, including structures; and
- c** identifying criteria to target the Highways Maintenance Efficiency Programme at those local highway authorities that need the most help, and develop evidence for local highway authorities to justify planned preventative maintenance.

The Agency should:

- d** have in place better data and modelling of deterioration for all its assets for the new government company.

20 In this report we evaluate the Department's and the Agency's performance. We have, however, seen that there is scope for some local authorities to become more efficient by:

- using information to build clearer cases for programmes of preventative maintenance; and
- increasing collaboration with other authorities and industry to make best use of constrained capacity and capability.