

Item 3

Investment in UK roads

For discussion and decision

Members are asked to discuss the questions included at paragraph 24, comment on and approve proposed lobbying positions at paragraph 25 and note proposed next steps at paragraph 26.

Summary

Surrey County Council submitted a motion to the LGA Group General Assembly on 6th July proposing that the LGA lobby to support investment in roads as a means of supporting jobs and economic growth (included at **Annex A**). At the July meeting, the Board requested a substantive discussion on investment in roads. This paper provides background to inform that discussion and sets out a proposed position for future LGA lobbying on roads issues.

Recommendation(s)

- To approve proposed lobbying positions set out at paragraph 25 in the document.

Action

- To take forward next steps as included at paragraph 26 and take any further actions arising as a result of the discussion.

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Investment in UK roads

Background

1. Roads are a crucial component of the UK transport network, and as such are vital to economic recovery, attracting jobs and investment to our towns and cities. A well-functioning road network is also important to social inclusion and a good quality of life, facilitating access to employment, education and services. Road transport accounts for three-quarters of all journeys made in the UK. Roads play a key role in commuting, business travel (80%+ was by private motorised road transport in 2002-04) and freight distribution (65% of which was by road in 2004) and also play an important role in non-work and leisure travel.¹ The costs of road congestion are significant. In 2006, the Eddington Transport Study estimated that unchecked, congestion would cost £22 billion by 2025.
2. Councils are responsible for the maintenance and up keep of more than 96% of the country's road network and for traffic management and road safety; transport planning, policy and strategy, and parking services. In 2008/09, estimated total local authority spend on highways and roads maintenance (including street lighting) was £3.5bn; local authority investment in road building was £1.1bn; and spend on the other activities listed above was £0.7bn.²

The issue: decision making on roads and integrated transport planning

3. Investment and management of local road networks needs to be considered as part of an integrated transport system and wider planning and development policies to address local economic, social and environmental priorities. In developing transport policy, councils balance the importance to the economy and to economic and social inclusion of road travel, with the impact of congestion and vehicle emissions, most notably the economic, carbon, health and 'liveability' (enjoyment of space) impacts. Issues to be addressed and the appropriate transport solutions are different in different areas of the country and there is need for decisions on investment in roads or other transport infrastructure to be made locally.
4. In making those decisions, councils are concerned with:
 - considering where expansion of the road network could reduce congestion or benefit local economies;

¹ Eddington Transport Study December 2006

² CLG Financial statistics 2008/09

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- reducing demand and need for road travel and vehicle use by investment and promotion of alternative transport options, incentivising modal shift and planning for development and services in a way that limits people's need to travel;
- maintaining the quality of the existing network – as poor quality roads present a safety risk and add to congestion resulting in cost to local economies and increased traffic emissions.

Constraints

5. Councils' ability to plan for investment in roads is constrained by a highly centralised and complex structure of decision making and funding arrangements on transport issues generally and on roads specifically – with
 - responsibilities for roads split between national government which retains control over decisions on major road schemes; the Highways Agency with responsibility for the strategic road network and local councils; and
 - funding split between councils' own funding; the Regional Funding Allocation councils receive; the council's Local Transport Plan funding; the Highways Agency's national funding and the Highways Agency's Regional Funding Allocation and Major Schemes funding from DfT.
6. Councils are also constrained in how they may raise finance to support expansion and maintenance.
7. The current public spending context is also a constraining factor both in terms of capital investment in infrastructure but also in terms of revenue spend as council budgets are squeezed as a result of spending cuts.

Positions going forward

8. There are some specific issues where the LGA could progress its campaigning on roads in line with other work on economy and transport, including:
 - Localised structures for decision making and identifying investment priorities
 - Devolved and unified appraisal methodology
 - Local and innovative financing mechanisms to support investment in roads
 - Need for continued funding for road maintenance and raising awareness of the importance of well maintained roads to economic recovery and growth.

Localised structures for decision making and identifying investment priorities

9. The LGA is currently campaigning for a radically different approach to funding for infrastructure, advocating place-based budgets to include a single capital

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pot. These arguments are made in detail in *Place-based budgets: the future governance of local public services* (see LGA website) and in *Funding and planning for infrastructure* – copies of which will be circulated to members.

10. In *Place-based budgets* we argue that commissioning services for a set of local services should rest with a locally accountable governance body and that, exactly how this body is constituted would be a matter for local decision but it would need to have a legal form and be fully democratically accountable locally; in most cases it is likely to be based on a council or councils working together.
11. If it were taking on a range of strategic commissioning decisions around economic budgets, natural economic geography points to a sub-regional geographic scope – councils working together based on cities, counties or county-sized group of districts or boroughs. The precise form and geographical coverage of new governance arrangements will vary from place to place. Our message to government has been the need for flexibility.
12. *Local economic partnerships* The Government has confirmed that councils will play the lead role in local economic development and has written to councils inviting them to work with businesses to put forward proposals to form a Local Enterprise Partnership to take on the responsibilities previously held by Regional Development Agencies. We have argued that the scope of LEPs should be a matter for local decision, but that they could cover the full range of inter-linked issues that underpin local economic performance including transport provision and infrastructure investment.
13. In *Funding and planning for infrastructure* we argue that decisions about investment in infrastructure, including roads, need to be made locally so that integrated transport strategy can be delivered effectively for coherent geographical areas that reflect journey patterns and local economies.
14. This would mean aligning the transport planning function with funding decision making at a level that reflects journey patterns and local economies. Councils working in partnership at sub-regional level would decide on successor arrangements to Regional Transport Boards (where local authorities took responsibility for collective decision making on identifying strategic investment priorities for transport) and any collective arrangements for local transport planning functions.

Investment appraisal methodology

15. A further critical factor in decisions on where investment in roads should be made is the appraisal methodology.

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16. Investing in infrastructure can and should deliver significant benefits and future savings in terms of public health, safety, pollution and crime reduction. Currently, however, these are not given sufficient weight in investment appraisal methodologies, and sometimes are not reflected at all. This means that current appraisal systems may not lead to the best allocation of resources and there is a need for a devolved and unified appraisal system.

Funding and financing

17. We are going to see cuts in funding. We therefore urgently need the freedom to develop new models of raising funding for essential infrastructure including roads. This includes models whereby councils can use their assets and future revenue streams to support infrastructure development and attract higher levels of investment from the private sector.
18. The paper *Funding and planning for infrastructure* discusses other means by which councils could use or have used to support financing. Examples include:
- Nottingham's Workplace Parking Levy which will be used to fund investment in transport infrastructure
 - Newcastle City Council's £21m investment in infrastructure through prudential borrowing funded through a 1.2 per cent increase in council tax
 - Tyne and Wear Integrated Transport Authority (ITA) financed the Tyne Tunnel without recourse to government funding (the £260m project is predicted to be self-financing with all debt serviced through income from tolls).
19. The paper explains how councils are often frustrated by the requirement to satisfy central government of the case for implementing these models and proposes a number of mechanisms which could be used to support local authorities' ability to raise finance for infrastructure development such as roads. We propose that Government should remove statutory barriers that prevent councils using fees and charges to fund borrowing, for example.
20. We also propose that the government should legislate to introduce Tax Increment Financing (TIF) which is a means of financing infrastructure schemes by borrowing against future tax revenues that result from regeneration. Examples of proposed schemes include Wandsworth's proposal for a TIF to fund the Nine Elms development surrounding Battersea Power Station; and Birmingham City Region's proposal for a £1 billion Accelerated Development Zones (a form of TIF) scheme to fund transport infrastructure. 80 local authorities responded to the previous government's invitation to submit projects as possible pilots for ADZ, demonstrating a strong appetite within Local Government to use this type of mechanism.

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21. We also argue that it would be helpful to make local authority bond issues more attractive (i.e. relative to loans from the Public Works Loan Board) and one way to do this would be to tax exempt bond investments in GDP enhancing infrastructure projects.

Maintenance

22. The LGA has campaigned over a number of years for sufficient funding for road maintenance. Our lobbying work earlier this year secured an additional £100 million for local authorities to deal with damage to roads caused by severe winter weather. However, the estimated cost of getting all roads up to an acceptable level is in excess of £8.5 billion. Decades of under-funding for road maintenance have meant that councils have had to focus on repairs rather than preventative resurfacing which would be more effective in the long-run. Sufficient capital funding needs to be supported by sufficient revenue funding to ensure efficient investment.
23. On 24th August, the Department for Transport launched a consultation on Local Transport Funding seeking views about the calculation and distribution of the two capital block grants for transport: the Integrated Transport Block – capital funding for transport improvement schemes - and the Highways Maintenance Block – capital funding for maintenance schemes³. The only change that the Department is considering in either of the two formulae is the option to disregard road condition in the maintenance block formula. This is proposed on the basis that more money being allocated to roads in poor condition rewards those authorities who spend the money inefficiently or on other priorities. The consultation does not deal with the issue of quantum for funding through the two blocks, which is a matter for the spending review. Nevertheless, the consultation does provide an opportunity for the LGA to submit our views on a more joined up approach to funding for infrastructure.

Questions for discussion

24. Members are asked for views on the following questions:
- Is there a case for continuing to build new roads on a significant scale?
 - Should it be a national programme, or should responsibility and any Exchequer funding be devolved?
 - How might non-standard funding models be applied to such a programme?
 - Should all new Trunk Roads and motorways be tolled or charged for?
 - Can new local roads be tolled or charged for?"

³ The consultation document can be viewed on DfT website at <http://www.dft.gov.uk/consultations/open/2010-32/consultationdocument.pdf>

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Conclusion

25. It is recommended that the LGA adopts the following positions to progress its campaigning on roads in line with other work on economy and transport:

Recommended positions

- Decisions about investment in infrastructure, including roads, need to be made locally. This will require a radically different approach to planning and funding for infrastructure to give councils more flexibility to target investment most effectively. All capital investment for local roads should be devolved to the local level under control of councils working together at the appropriate level who know how best to use it to support the local economy. This should include scope for council partnerships to take decisions over Highways Agency roads where the impact is sub-regional.
- A devolved and unified appraisal system, which accurately reflects the costs and benefits of infrastructure investment, and allows comparison and integration with other development projects, is required if we are to make sure that that investment is targeted to deliver maximum value for money.
- We urgently need the freedom to develop new models of raising funding for essential infrastructure including roads. This includes models whereby councils can use their assets and future revenue streams to support infrastructure development and attract higher levels of investment from the private sector.
- The LG Group should continue to make the case for investment in road maintenance even within a smaller funding envelope by evidencing the greater long-term costs to the economy if funding is constrained in the short term.

Next steps

26. Subject to the Board's discussion and decisions, the Group will lobby in support of the agreed positions through the following activities:

- Meetings with relevant Ministers, including one being arranged with Norman Baker MP;
- The LGA will be submitting evidence to the Transport Select Committee's enquiry into Transport and the Economy (deadline for submissions 23 September 2010);
- The LGA will submit a response to the DfT consultation on Local Transport Funding (closes 6 October);

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- *Planning and funding for infrastructure* will be published and disseminated in early September (copies will be available at the meeting);
- Reflected in capital submission to the Spending Review;
- Presentations from Board Members and officers at external conferences, including ADEPT annual conference on 4th and 5th November.

27. We will also take forward any further actions arising from the discussion.

Financial Implications

28. Actions identified in this report can be resourced from within the Board's agreed work programme



**Economy & Transport
Programme Board**
15 September 2010

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Surrey County Council, supported by West Sussex County Council, East Sussex County Council, Central Bedfordshire Council, Hampshire County Council, Southampton City Council, Isle of Wight Council, and West Berkshire Council.

Proposes that:

“This Association expresses its concern that the state of the UK’s roads continues to provoke unnecessary problems, financial costs and huge frustrations for residents, businesses and councils alike throughout the country.

A study by Oxford Economics estimated that if transport infrastructure spending in the South East had been maintained over the past 15 years at 1% of GDP, as seen in 1989-91, UK GDP could be expected to have been around £1.6 billion (1%) a year higher by 2006 than it actually was. This in turn would have generated an additional £750 million a year in tax revenues that would be available to support public spending elsewhere in the country.

In the current economic climate, it is more important than ever that all public spending be targeted to ensure that it is achieving the greatest possible impact. This Association believes that investment in roads in areas of high economic activity creates a virtuous circle in which these areas’ economic potential can be harnessed to create more jobs, more growth and significantly higher tax revenues that can be reinvested in all areas of the country.

This Association will use its influence to lobby for this investment.”