Local Government Group

Economy and Transport Programme Board
18 November 2010

Item 2

Investment in Roads

Purpose of report

Following discussion at the meeting of the Board in September and in the light of Spending Review announcements, Members asked for a further paper and discussion on investment in roads. This paper gives a summary of announcements within the Spending Review relating to roads, expands on issues raised by members at the last meeting and explores potential options for maintaining investment in roads with less public funding.

Cllr Dr Andrew Povey, Leader of Surrey County Council, will attend the meeting for this item and will open the discussion with a short presentation giving his perspective on maintaining investment in the road network.

Recommendation(s)

Members are asked to comment on issues addressed in the report and give views on the suggested lobbying positions and recommendations set out in paragraphs 12, 16, 22, 26 and 28.

Action

To progress lobbying work in light of comments from the Board.

Contact officer:	Caroline Green
Position:	Senior Policy Officer, LGA
Phone no:	020 7664 3359
E-mail:	caroline.green@local.gov.uk

Local Government Group

Economy and Transport Programme Board

18 November 2010

Item 2

Investment in Roads

Background

1. Following discussion at the meeting of the Board in September and in the light of Spending Review announcements, Members requested a further paper and discussion on investment in roads. This paper gives a summary of announcements within the Spending Review relating to roads, expands on issues raised by members at the last meeting and explores potential options for maintaining investment in roads with less public funding.

2. At the previous meeting of the Board, members expressed the view that in a constrained financial environment investment in maintaining the existing road network will need to take precedence over building of new roads. The focus of this paper is therefore maintenance, though some of the funding mechanisms discussed could be applied to financing new road building or capacity expansion schemes.

Summary of Spending Review announcements in relation to roads

3. The headline Spending Review announcements in relation to roads are:

   3.1 Capital funding for local road maintenance reduced by 19% across 4 year Spending Review period (total funding will be £3bn 2011/12 – 2014/15).
   3.2 DfT has identified "significant scope for efficiencies for example by combining purchasing power of local authorities to drive down prices."
   3.3 To help deliver these efficiencies DfT have allocated £3m in each 2011/12 and 2012/13 for a "highways efficiency programme"; what this programme might consist of is currently being discussed between DfT officials and LG group officers.
   3.4 £1.5bn for local authority major schemes (including a number of road schemes) - £600m for schemes already in construction or with conditional approval, £900m for schemes which local authorities have lodged with DfT prior to June 10th 2010.
   3.5 Highways Maintenance PFI schemes in Sheffield, Hounslow and the Isle of Wight will proceed, subject to local authorities demonstrating affordability.

4. Other announcements in the Spending Review of relevance are:

   4.1 Councils will be granted flexibility to borrow against future income from taxes generated from new development through Tax Increment Financing.
   4.2 A commitment to review the case for the re-localisation of business rates

4.3 Councils will retain flexibility to borrow prudentially, but interest on loans from the Public Works Loans Board (PWLB) will increase by 1%, increasing the cost of borrowing.

Issues for consideration in decisions on road investment

5. **Economic impact of local road condition -** At the last meeting, Members argued that the emphasis in targeting investment needs to be based on the benefits to the local economy. The costs of maintaining the road network need to be balanced with the economic costs arising from poorly maintained roads. Recent research by You Gov carried out for the Asphalt Industry Alliance found that badly maintained local roads are costing the economy £4.1bn a year in wasted staff time, production delays, damage repairs to vehicles and increased fuel charges resulting from congestion.

6. **Environmental impact of investment in roads** – The decision to invest in the road network needs to be balanced against the benefits of 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.

7. There is also an environmental case for ensuring that roads are well-maintained to reduce the environmental costs of pollution caused by congestion resulting from poorly maintained roads.

Alternative means of financing investment in roads

8. In September, the Board discussed a number of alternative sources of finance including 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. Members also requested further information to inform discussion and inform LGA lobbying positions on the specific areas set out below.

Road user charging and tolling

9. The coalition government has ruled out the notion of national road user charging other than for HGVs. However, in a meeting of the Transport Select Committee in July, Transport Secretary, Philip Hammond indicated that there was the potential for new toll roads to be built in the UK.

10. The UK's first toll road, the 27-mile M6 toll trunk road, was designed to relieve congestion on busy routes around Birmingham. Its cost of approximately £900 million was financed by its owner, Midland Expressway, and opened in December 2003. Analysis from a range of sources, including the House of Commons Transport Select Committee have found that at best the benefits of the toll road to the local economy have been weak, and it has failed to relieve congestion, or take HGVs off the surrounding road network and is losing money. This has led to increases in charges to make the project economically viable. This is largely because motorists have the alternative option of travelling

on the M6 free of charge and time savings achieved by using the toll road are not commensurate to the cost of the toll.

11. International evidence suggests that tolling can be an effective means of attracting private sector investment in new roads. In Norway toll revenue represents 32 percent of the budget for the national road system. In Spain the figure is around 46 percent. A study by the World Bank[1] finds that toll roads can provide a new and sustainable source of funding for roads. Key factors in successful toll roads schemes are:

    11.1 that they should not be developed next to parallel free roads which detract from the effectiveness in alleviating congestion and may cause problems in financial cost recovery;
    11.2 That tolls should be fixed in advance and then linked to consumer prices.

12. **Suggested LG Group position:** The LGA supports road tolling for the national network as a means of attracting private investment in roads subject to a clear analysis of the costs and benefits to local economies.

Lorry user charging

13. A substantial proportion of damage to roads is caused by HGVs. Furthermore, foreign HGVs do not pay UK VED and may not pay UK fuel duty. This has been seen as unfair to UK hauliers who do contribute through taxes and fuel duty.

14. The introduction of a road user charge for HGVs would allow for the costs of this damage to be recovered in a fair and transparent way. The absence of such a scheme in the UK is anomalous as most European countries have implemented or are in the process of implementing some form of lorry-charging scheme, whereby all hauliers from any country pay for using the roads, either by time or distance.

15. The coalition agreement in June included a commitment to “working towards the introduction of a new system of HGV road user charging to ensure a fairer arrangement for UK hauliers”. The detail of how such a scheme will operate is yet to be confirmed, however it is the government’s intention that it should be delivered within the current term. It is worth noting, however, that the previous government made a similar commitment on a number of occasions between 2001 and the end of its term.

16. **Suggested LG Group position:** The LGA supports the introduction of road user charging for HGVs which should be hypothecated to road maintenance in proportion to the road mileage for which each highways authority is responsible.

Using capital receipts to finance highways maintenance

---

[1] World Bank Tolls and Concessions Knowledge Base
http://www.worldbank.org/transport/roads/toll_rds.htm#top

17. Historically councils have used capital receipts for road maintenance programmes. For example, Leeds City Council allocated capital funds from the sale of Leeds Bradford Airport to tackle a backlog of maintenance. However, the fall in property values and decline in capital receipts in recent years have meant this is less of an option for many councils.

Funding from utility companies

18. In 2009, research carried out for ADEPT (the professional body for senior officers working on transport issues) found that the additional costs to local authorities resulting from works carried out by utility companies is approximately £70 million per year. Under current legislation, councils have only limited powers to ensure that utility companies reinstate roads to an acceptable condition following street works.

19. The Traffic Management Act 2004 introduced permit schemes to improve authorities' abilities to minimise disruption from street and highway works by requiring utility companies to apply for a permit to undertake works. Permit schemes would also allow councils to charge for permits and fine utilities if they over ran or did not reinstate roads to an adequate condition following works. However, in the two years since the powers became available, only two areas - London and Kent - have applied to operate permit schemes. It is thought that the significant costs involved in setting up a scheme and the strenuous criteria that have to be satisfied to gain approval from the Secretary of State are major reasons why take up of permit schemes have not been more widespread.

20. Strengthening councils' ability to ensure that utility companies properly reinstate roads to their previous condition will significantly reduce maintenance costs.

21. Two possible models for this would be:

    21.1 To simplify the process and remove the requirement for local authorities to gain Secretary of State approval for implementing a permit scheme;
    21.2 Requiring utility companies to deposit bonds with highways authorities that they could use to reinstate roads where utility companies fail to do so satisfactorily.

22. **Suggested LG Group position**: Government should bring forward legislation to give councils the tools they need to recoup the cost of damage to roads caused by utility works.

Private Finance Initiative (PFI) schemes

23. The last decade has seen considerable emphasis on centrally funded PFI schemes to finance infrastructure. Bidding rounds for transport PFIs have been significantly oversubscribed. The majority of transport schemes have been for street lighting with only two now in operation for highways maintenance (Portsmouth and Birmingham). Government announced in the Spending Review that three other highways maintenance projects already in procurement

(Hounslow, Isle of Wight and Sheffield) will go ahead. Other DfT PFI schemes (for street lighting) have been cancelled and it is clear that no others will be financed in this Spending Review period.

24. In our report *funding and planning for infrastructure*, the LGA argued that the centralised PFI model is no longer a workable or affordable option. We argued that future generations of PFI that are negotiated locally should not be reliant on government grant, and should provide more transparency and better value for money.

25. Local Partnerships is working with authorities and contractors to develop new, longer term partnership models. For example, offering longer term contracts of 10 – 15 years instead of current 5 year contracts would encourage contractors to invest as they would be able to achieve greater operational savings over the life of the contract.

26. **Recommendation**: That Local Partnerships ensure that learning from their work on new partnership models is disseminated to benefit the whole local government sector.

Making the money go further – scope for efficiencies

27. Local Partnerships have been working with a number of authorities to identify potential efficiencies. Initial findings suggest that significant cost savings could be secured through:

    27.1 Improved procurement practices
    27.2 Reviewing service levels – moving from gold plated towards minimum standards
    27.3 Effective Asset Management
    27.4 Streamlining management and client functions
    27.5 Outsourcing functions (savings on terms and conditions for employees)

28. **Suggested LG Group position**: Local Partnerships work in this area together with the DfT's proposed highways efficiency programme and the LG Groups' productivity work should be part of a sector led programme of improvement that will support highways authorities in achieving savings in the most effective and efficient way.

Conclusion and next steps

29. Subject to Members' views LGA officers will work with DfT and the LG Group (in particular Local Government Improvement and Development and Local Partnerships) to progress LGA lobbying and support to local authorities according to the suggestions and recommendations set out in this report.

Financial Implications

30. Activity described in this report can be resourced from within the existing work programme.