



Briefing 11/30 June 2011

# **‘Going the distance – achieving better value for money in road maintenance’ - A report by the Audit Commission.**

To: All contacts in England.

For information: All contacts in Wales, Scotland and Northern Ireland

## **Key issues**

Report calls for greater collaboration to get better value for money

Significant challenges include lower funding, increasing costs and usage as well as higher expectations

Recommendations include concentration on asset management approach

## **1. Introduction**

The Audit Commission (AC) has produced a report entitled ‘Going the distance - Achieving better value for money in road maintenance’ which it states is aimed at councillors as well as being of interest to chief executives and officers. The report highlights the critical role that local roads play in the economic performance of an area and on the broader quality of life. It notes that roads are the biggest asset that a council has and the fact that £2.3 billion was spent on road maintenance in 2009-10. The report looks at how councils can maintain or improve roads with less money.

It does not cover footways, bridge and winter maintenance or Transport for London spending.

## **2. Background**

The report begins with an assessment of spending and road condition across England. It notes that the amount spent on roads has increased in cash terms by 73% and goes on to say that costs have increased by 85% over the last 10 years compared with general price inflation of around 27%. As a result the report claims that the cost of maintaining one kilometre of road is nearly 50% higher than it was 10 years ago. This means that there has been no real increase in purchasing power since 2000.

Utility companies carry out a lot of work on the highway and the report also refers to unsatisfactory re-instatements and one council is quoted as claiming that 30% of re-instatements inspected were unsatisfactory. Long term damage to roads by utility companies costs councils nearly £50m every year.

The annual ALARM survey shows there has been a gradual improvement in London over the last few years whilst the rest of England appears to be getting slightly worse. Although it appears that some progress has been made on improving road condition, there are worrying patterns emerging. The report goes on to say that local road condition varies widely across England and smaller residential roads are being left behind. The early signs show the road network overall is starting to deteriorate again.

The report's conclusions from the opening section are that highways departments will be under considerable pressure in future as recent funding cuts bite deeper, the maintenance backlog, needs attention, public expectations remain high and road usage increases.

### **3. Long term thinking**

The second part of the report looks at strategies councils should consider to increase value for money of their spending on roads and offers practical suggestions for council officers to challenge the cost-effectiveness of the delivery of their road maintenance works.

The report goes into detail about the balance between dealing with the worst roads first and looking at whole life costs. It notes the influence that national performance indicators, the desire to maximise tenant satisfaction, addressing those areas which give rise to the highest levels of insurance claims, the political cycle and annual budgeting can have on the decision to deal with the worst roads first. It claims that taking an asset management approach can help resist reacting to short-term pressures whilst providing more value for money.

The report goes on to say that the key to improving the value for money of road maintenance is knowing and understanding when and how to intervene. It goes on to make an argument for preventative rather than reactive maintenance which it claims is better value for money. It notes that reactive maintenance will have a more immediate impact and be appreciated more by road users but that preventative maintenance will have a far better long term outcome. As part of this section the report notes the benefits of asset management plans and details the positive outcomes that can result from using them effectively. The need to maintain an appropriate inventory of baseline information of the roads is noted as is the need to ensure the data held is suitable for the size and age of the network and the funding available for data collection and that it is used effectively.

The report notes that good asset management need not necessarily be at odds with localism and that good asset management is about understanding the different priorities and making informed choices between them. Allied to strong leadership and engagement, this approach can lead to understanding local priorities better and more effectively explanation to the public about the trade-off decisions made in road maintenance.

## 4. Challenging delivery

The report notes that savings can be made via adopting an asset management approach but that councils also need to reduce their costs by identifying efficiencies. The report provides an example of significant price differential for a similar service through a term maintenance contract.

### Price benchmarking

It claims its own price benchmarking exercise reveals much variation in unit cost which cannot be explained by council type, region or the procurement model used. The report notes the difficulties of price benchmarking not least the range of specifications one item can cover such as materials and depth of works for resurfacing.

### Incentivising contracts

The report notes that performance incentives are critical to good contract management and controlling the costs of delivering road maintenance with contract extensions being a common method. Some councils have combined contract extensions with strong performance management. Other methods used include target costing (where efficiency savings are encouraged by ensuring the contractor receives some of the savings made, should the actual cost be lower than the target) and continuous market testing.

### Changing procurement models

The fact that there has been a move to term maintenance contracts and framework agreements over recent years is noted as is the fact that there are merits and drawbacks from these and other procurement options. The report discusses the different issues which emerge from different models but comes to no conclusion.

### Collaborative working

The report notes the differences between collaboration with contractors (looking at for example, open book accounting and encouraging innovation) and collaboration with highways authorities (looking at shared equipment, joint materials purchase and better supply chain management). The report states that although councils are working more closely with contractors and benefitting from doing so they have yet to get the most from working closely with each other. It claims that two thirds of respondents to a survey agreed that greater value for money could be realised through working collaboratively so concludes that there is a willingness to do so.

It states that councils should make greater advantage of joint purchasing power when using the same contractor and that some remain lukewarm about savings that can be realised so are unwilling to spend time and effort on trying to find such savings. It then goes on to describe savings made as a result of the Midlands Highways Alliance.

Regular problems such as in-house capacity, administrative burdens and risk transfer can be addressed by collaboration.

### Assessing standards

The report claims that councils need to do more than assess the standards at which services are delivered – they must consider compromising on previously agreed minimum service levels. It goes on to say that councils should take stock of what service levels are achievable and acceptable if they are to continue to fulfil their legal commitment to maintain the road network within set standards, with fewer resources. The report gives examples of options which are things such as

reducing inspection regimes or closing roads, decisions which it claims are increasingly devolved to the local level.

#### Involving road users in decisions

The report discusses some of the problems of councils engaging with road users but backs communication and consultation as worthwhile.

### **5. Report recommendations**

The report sets out a number of recommendations as follows

#### Councillors and senior managers should:

- Be clear how they intend to respond to current pressures while minimising whole-life costs of local roads;
- Ensure they set service standards – for example road condition and response times – that they can afford;
- Publicise and explain to the public their approach to road maintenance, and the implications of worst-first and preventative approaches;
- Apply asset management principles when making investment decisions; and
- Address the barriers to greater joint purchasing and collaboration with other councils.

#### Highways departments should:

- Make better decisions by developing:
  - Clear and focussed asset management plans; and
  - A better inventory and other relevant data for different aspects of their road asset.
- Improve cost effectiveness by:
  - Sharpening procurement through analysing cost variations;
  - Collaborating with others to gain efficiencies in road maintenance;
  - Working more closely with contractors to reduce costs and secure innovation;
  - Being robust in defending road user compensation claims; and
  - Working more closely with utility companies to reduce the number of utility openings and to improve reinstatements.

Professional bodies should;

- Help councils determine the optimal balance between planned and unplanned maintenance for their local network.

### **6. APSE comment**

APSE welcomes the attention given to the issue of highways and gaining value for money in road maintenance. The report reflects understanding of the challenges facing all highways authorities as it highlights the fact that road assets are old, vary in their construction profile, have been built over a long time, on varying geological bases and have different maintenance needs as well as noting the growing public demand for high quality roads. This wide spectrum of conditions, local circumstances and related factors that highways authorities work within is not new nor has it just come to light. It is precisely this variety of factors which has led to the innovations and initiatives which councils have developed and which enable them to manage the road network so well. The

major factor which is out of their hands is the level of financial resources which are allocated to them.

The report makes a number of statements which justify the argument made by those calling for greater investment (allied to improvements leading to better value for money) in road infrastructure. The theme and recommendations in the report are made within the stated context of reduced funding. Comments such as 'Road traffic is expected to increase by over 30% by 2025', 'Roads play a critical role in public service delivery and economic growth' and 'road and pavement repairs were the second highest priority for improvement in local areas', would sit well within a justification for additional funding, considering the knock on impacts for the local economy and public priorities.

As a report intended to spread existing good practice the report works well to highlight examples of innovation. However it does not add much to the discussion other than the ideas generated by councils themselves. As such it falls into the category of reports from central government departments or related offices, which claim to provide new ideas whilst in reality simply presenting existing case studies or ideas collected from the exactly the organisations the reports are aimed at.

There is no doubt that lessons can be learnt by councils studying the actions of other councils, that savings can be made and that practices improved. However the fact remains that if councils 'may need to consider compromising on previously agreed minimum service levels', as the report states, an element of the service will have to suffer. Service levels have often been designed without funding being the overriding factor and as such are set at the most appropriate, safest and effective level. Introducing cost as a factor means service levels will be considered from a different viewpoint. An example is road safety which was affected significantly by funding cuts (including the abolition of the Road Safety Capital Grant which had been set at £17.2 million). From April 2011, road maintenance grants (as well as items such as the entire Road Safety Grant) were subsumed into the formula-based grant from the Department for Communities and Local Government which funds revenue spending of all local authority services. The ending of ring-fenced funding is intended to give local councils greater flexibility in meeting local need. For topics such as road maintenance as well as others, this will result in competition for revenue funding between these services and others such as adult social care, child protection and libraries.

The issue of the maintenance backlog is also significant and will have an impact over the long term. Although there are new products on the market and more efficient ways of working, the scale of the problem is such that it requires substantial investment. In the meantime, the cost of damage to vehicles, insurance claims, delays that dealing with the backlog have on improving roads and the knock on effects to the local and national economy, remain unaddressed. Dealing with the backlog means spending money allocated for improvements on repairs to get to a stage where improvements and long term management can be undertaken.

One of the main recommendations of the report, that highway authorities should repair roads on a planned basis, is a logical one. However attempting such an approach when the road network is in such a poor condition is very difficult. APSE agrees that applying an asset management approach is a reasonable way forward. However one of the points the report relies on to promote the value of roads ( i.e. the value the public place on the road network) is something it later appears to sideline by recommending a move to asset management whilst publicising and explaining to the public the approach to road maintenance and the implications of worst-first and preventative

approaches. Road users want roads which are in good condition today, not in 20 years time, hence the public calls for action. This highlights the need to tackle the backlog as well as invest in the infrastructure. Without tackling the backlog, public pressure for improvement will remain as will the poor state of the roads.

Many councils are allocating funds to establishing databases containing information about their road assets and related maintenance requirements. Some may question the value of spending limited resources on such projects with reducing budgets, especially as arguments are being made for the need to spend on roads now to gain the short term benefits which will emerge in order to get the economy moving again.

The report raises the issue of implementing a whole life cost strategy but this is a difficult area. Whole life costs are complicated to determine, certain to change over time and, in the case of roads, never-ending because the road will be used into the foreseeable future. This is an area where research needs to be done, standards drawn up and guidance issued.

Unsatisfactory re-instatements are addressed in the report and this has been an ongoing for local authorities for a long time. There are long term costs for poor workmanship and the cost of such externalities should be borne by the organisation that undertakes them. This would go some way to providing the funding to improve the network.

In summary, the report highlights some important issues which councils have been wrestling with for some time without really providing comprehensive answers. APSE welcomes the light thrown on the activities of some councils who are undertaking innovative projects and approaches and calls for extra funding to enable others to follow suit and ensure the road network remains an asset rather than a liability sucking up valuable resources

**Phil Brennan**  
**Principal Advisor**