



**Briefing 11/75    December 2011**

# Reducing costs in the Department for Transport - National Audit Office

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

Key issues  
NAO report praises DfT for preparatory work on spending review  
Large scale saving expected across the sector  
Report notes no longer term plan in place

## **1. Introduction**

The National Audit Office (NAO) has produced a report titled 'Reducing costs in the Department for Transport' which looks at the spending plans for the department in the context of the 2010 spending review. It notes that the Department for Transport started its preparations for the 2010 spending review early and took steps to improve and challenge the evidence on which it based its decisions with a view to securing value for money.

The report can be accessed here [http://www.nao.org.uk/publications/1012/reducing\\_costs\\_in\\_the\\_dft.aspx](http://www.nao.org.uk/publications/1012/reducing_costs_in_the_dft.aspx).

## **2. Highway maintenance**

The 2010 spending review set a transport budget that is 15 per cent lower in 2014-15 compared with 2010-11. The NAO notes that the Department conducted a structured process to identify potential areas for budget reductions informed by its high level objectives and although all areas of spending were affected, the Highways Agency sees the biggest reduction, with a budget falling from £3.2 billion in 2010-11 to £2.1 billion in 2014-15. There are risks to value for money in decisions taken by the Department to reduce costs following the 2010 spending review. There is a risk now that a proportion of the budget reductions in road maintenance and rail budgets may not be financially sustainable.

The report states that budget reductions of £1.23 billion will be made to national and local road maintenance which includes £435 million from reducing road condition standards and cutting routine maintenance and unspecified efficiencies of £223 million, risking deterioration in road quality and higher long-term costs to the Department or local authorities.

Continuing to meet its objectives within lower budgets will depend on the Department finding new ways to deliver the objectives. It goes on to say that one year after the spending review, it is too early to assess with confidence progress on the major cost reduction measures, as most of the critical milestones against which progress can be judged lie ahead.

The NAO report states that reducing maintenance may lead to a deterioration in road quality and so increase costs in the longer term. It recommends that the Department needs to monitor closely the condition of national and local roads, compared with the minimum condition needed to meet its objectives and avoid

incurring future costs. This should be combined with regular progress reports on actual efficiency savings achieved.

The report highlights the fact that for local highways maintenance, the Department holds very limited information on value for money because local authorities do not have to spend the Department's funding on maintenance or give an account to the Department for it. To improve the evidence base, the Department examined a sample of large maintenance schemes and also commissioned the University of Birmingham to assess the relative costs and benefits of local maintenance.

On local highways maintenance, the Department reduced budgets by 23 per cent by 2014-15, a £557 million reduction in planned spend over the four-year period. It took the view that though ambitious, this could be achieved through efficiency savings. The Department drew on advice from local authorities and the Chartered Institute of Public Finance and Accountancy that improved procurement and asset management planning could yield three-fifths of the required savings. However, there was no information to suggest how the remainder of the savings could be achieved. Recognising the significant challenge faced by local authorities, the Department has set up a £6 million programme to help them identify and realise efficiency savings. The Department is now working with local authorities to develop and spread best practice guidance, such as by developing standard specifications for procuring maintenance services.

### **3. Comment**

APSE welcomes the central messages in this report. The Department for Transport is working hard to promote efficiencies across the sector with the Highways Maintenance Efficiency Programme being a high profile example. APSE is a partner in this programme and contributes to the work of the groups and sees at first hand the kind of schemes and approaches being put forward and the ongoing efforts of the work streams.

The detail of the cuts made to the Department's budget is no longer news - all areas of local government are dealing with the fallout from the spending review and will do so for a long time to come. However the report does highlight the fact that the highways network remains a vital element of national infrastructure and all bodies involved with its maintenance will agree that delaying essential maintenance now will only result in a build up of more expensive and time consuming work at some point in the future. Needless to say the longer the period is during which essential work is missed, the greater the build up of a back log will become and the more formidable a job it will be to alleviate the resulting problems.

Essentially the report warns that road maintenance budget cuts will cost the country more than they save. The nature of ongoing maintenance and the repercussions of not managing the network continuously will be significant. The economic value of the highways network is well understood and without good asset management approaches it will deteriorate. There will be further impacts through damage to vehicles, traffic delays and capacity issues.

Some may argue that budget reductions and the impact on, in this case the highways network, is the only approach to tackling the deficit. However it remains a fact that infrastructure will degrade if it is not maintained and the cost of reactive repairs is far greater than the cost of preventative maintenance.

One area of note in the report concerns the amount of information the Department has about the condition of local roads. Although APSE does not advocate the creation of a new system of reporting the condition of local roads between central and local government, we do promote an asset management approach to highways management which will clearly involve the collection and updating of information about highways infrastructure and its condition. This data should be available at the local level and in most cases local authorities are in possession of appropriate information and ready to share it with central government. Local and central government need to work together to ensure the correct data is available to meet local needs and inform the budget setting process at both levels without duplication or data overload.

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