

County Council – 4 September 2013

JOINT REPORT BY THE CABINET MEMBERS FOR FINANCE AND CHANGE AND HIGHWAYS AND FLOOD

1. Introduction

At the meeting of the County Council on 19 June, Motion 686 was considered. The motion raised concerns about the number of potholes and other road damage on Gloucestershire roads. It called for an additional £4m to be spent over the next two years on road repairs. During the debate it was suggested that the issues needed to be looked at in depth, understanding the current position on council reserves.

The Council resolved “that the motion be referred to the Highways Working Group and for discussions with group spokespersons to report back at the next Council meeting.”

2. Highways

As Cabinet Member for Highways and Flood, I accept that the condition of the roads is of concern to Members and the public. I am pleased that there is an all-party advisory group who are looking at the issue in more detail. They met on 31st July 2013 and are due to meet again in the next few weeks. Officers have provided me with a summary of the first meeting.

2.1 Highways and Transport Contract Progress

Members were provided with a breakdown of how our current highways contract with partner Atkins (now Skanska) operates. The group was informed that the partnership, (established in 2006) has an average budget of £39.6m p.a. and employs 335 staff, (118 GCC, 217 Atkins) in delivering schemes up to a value of £500k, and designing and supervising schemes over this amount. This contract works on an outcome based model requiring Atkins to prove achievement against key performance indicators in order to make profits.

Members were updated on the progress of the new contract to-date. Since beginning the process in 2010, officers and members have engaged in fact finding visits, soft market testing, and liaised with highways professionals through the Highways Maintenance Efficiency Programme (HMEP) to help ensure that the procurement criteria would deliver a contract that maximises returns from investment. Member involvement in determining the criteria to take to market has been substantial, with engagement through scrutiny and Cabinet; which decided in November 2012 to go with a restricted procurement process.

The group learned that the new contract is based on a HMEP standard and operates on a schedule of rates (price list) basis that will provide the council with cost assurances going forward while still allowing for flexibility. Clearer

definition between client and contractor roles is another notable change from the current contract, as the new contractor will be responsible for all aspects of contract delivery, including the customer interface. It is expected that approximately 69 GCC staff will be TUPE'd across to the new contractor to fulfil these new roles. One key aspect of customer contact that will remain GCC's to deliver is our interface with members and parish councils.

2.2 Role of the Group

The role of the Highways Contract Advisory Group going forward was discussed during the meeting, with officers highlighting the ways in which group members could assist the positive progress of the procurement and mobilisation processes. In particular, a role for members in working with the winning contractor during mobilisation to define the engagement expectations of members was identified. Also used as examples of positive member involvement were the roles of members in keeping other members informed of progress, and helping other members to understand how the new contract will operate.

2.3 Highways Need

Officers explained our knowledge of the road network condition. In simple terms we have a road network and all its ancillary parts (signals, lighting, drainage), perhaps worth £3bn if we were ever to build it from scratch, but this figure will always be hypothetical, and involve a degree of guesswork. The one figure that we now have significant confidence in is the cost of repairing the highway surface to a standard "good" condition – we refer to this as the maintenance backlog, which we believe amounts to £86m, the roads we now know to be in 'red' or 'amber' condition. This is based on a high level of annual surveying, giving us a much greater confidence than we would have had a few years ago. The second figure that we believe is robust is the amount of money we need to spend each year to 'standstill' in terms of highway condition, i.e. to stop the backlog growing: we believe this figure is £15m per annum. This is an average figure, recognising that the difference between a gentle and a harsh winter could see normal road deterioration varying between 2.5% and 4% of the total network.

Members were also reminded that the backlog of works on the carriageway is not the only problem we face with our highway assets; we have street lighting, traffic signals, bridges, and drainage features all deteriorating with age and requiring appropriate investment. However, the focus of recent discussions has been the "state of the roads", usually reflected by public concern at visible faults such as potholes or cracking.

The fundamental question is whether we are currently spending enough to at least stand still, i.e. the £15m figure. If we look at the structural maintenance (capital) budget for 2013/14, and only count spend on works, this figure alone amounts to £16.4m. However, this is higher than the base budget would have been by approximately £1.5m, as a consequence of Cabinet and or Council investment decisions over the last 8 months or so. **So it is probably safe to say that our base budget is almost exactly set at achieving a standstill position, and this year we are seeing a modest one-off investment in improvement.** This is almost certainly a worst case interpretation of our

investment, as it completely discounts over £10m revenue investment in roads, at least half of which is on pothole repair and patching (which has also seen a series of one-off investments in the last 8 months).

There is an important point to recognise here in that potholes tell two different stories: they will reflect structurally failing roads, but also are a bellwether of how harsh the last winter has been. Filling thousands of potholes is necessary, but patching, structural overlays, and surface dressing are the investment we need to be making if we want better roads in the longer term.

Looking forward, we are likely to see an increased grant settlement for structural maintenance from the Department for Transport for 2014/15 onwards, based on announcements about infrastructure investment following the Government's Spending Review statement of late June/early July 2013.

Following the conclusion of the presentation, Members discussed the total investment the Council makes in routine and structural maintenance programmes, noting that for any substantial improvement in condition in the short term, a major boost in funding would be required beyond the standstill structural maintenance investment of £15m.

3. Reserves

As Cabinet Member for Finance and Change, I asked the Director of Finance to undertake a technical review of the Council's reserves. This has been shared in detail with myself and the political group spokespersons.

In summary, a full presentation was made covering each individual reserve, which demonstrated the financial risks and commitments against a balance on reserves at 31 March 2013 of £133.8 million, £111 million excluding schools.

There are a number of different reserves: "**earmarked reserves**" totalling £91.3 million only to be spent in specific areas; e.g. Economic Stimulus Reserve, Fire PFI Reserve, Insurance Fund, Capital Grants and transformation.

There are "**schools reserves**" of £22.8 million specifically for the use of schools and not under GCC control.

Finally there are "**general reserves**" of £19.7 million or 4.6% of the net budget. This is within the target range of 4%-6%. It is equivalent to 10 days of average net expenditure. General reserves are used for unexpected items. Some examples include major overspends (impact of continued increases in vulnerable people requiring GCC services), major in-year funding changes (grant changes), natural events (like flooding), loss of funding (Icelandic Banks).

4. Conclusion

Even taking into account the additional investment and recent improvements, and the position on reserves, we understand the concerns of Members and local communities. We are therefore planning to take a further step of investing an

additional £1m during 2013/14 in recognition of the concerns about the state of Gloucestershire's roads. We propose that the funding be released from the one off opportunity created by the Impairment reserve, following recent information received, which is outlined in the Budget Monitoring report to Cabinet, 11th September.

5. Recommendation that:

Council supports the recommendation outlined in the Budget Monitoring report to Cabinet, 11th September 2013, to invest an additional £1m in Gloucestershire roads during 2013/14.

Cllr Ray Theodoulou
Deputy Leader and Cabinet Member
Finance and Change

Cllr Vernon Smith
Cabinet Member
Highways and Flood