

## **INTRODUCTION**

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities, the three fire and rescue authorities, and four police authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.
3. WLGA welcomes this opportunity to comment on the state of highways in Wales in response to the Economy, Infrastructure and Skills Committee's call for evidence for its inquiry on this subject.
4. Comments are offered below under a range of headings which correspond to matters listed in the terms of reference of the inquiry.

## **The current condition of highways in Wales**

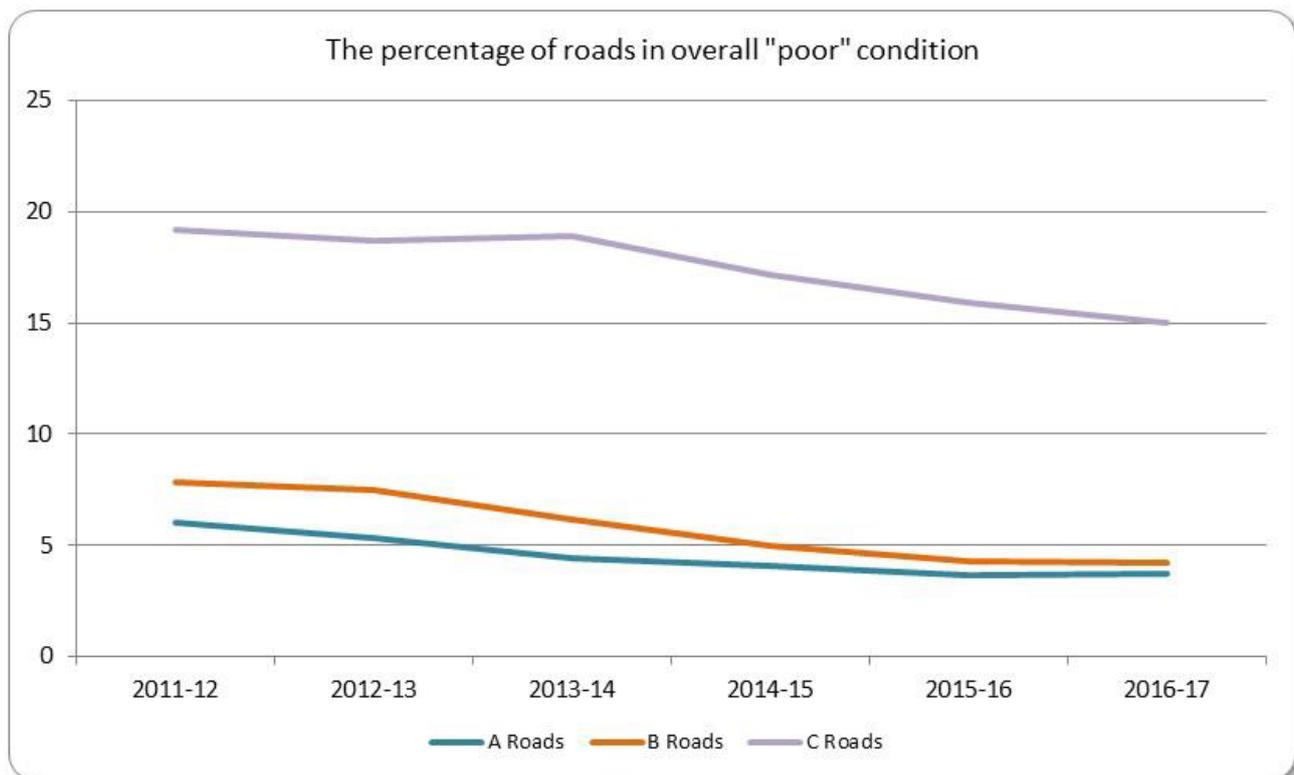
5. The condition of highways in Wales is a significant concern for residents of, and visitors to, Wales. There are frequent reports about the number of potholes and the risks these pose for highway users including cyclists. The recent ALARM report by the Asphalt Industry Alliance claimed that it would take 24 years and over £600m to bring highways across Wales up to an acceptable standard. The report was based on responses received from local authority highways departments.
6. Local Authorities, as the local highway authority, are responsible for nearly 33,000 kilometres of the road network, including A, B and C roads and minor surfaced roads that they have adopted<sup>1</sup>. Highway condition information is reported as one of local authorities' performance indicators, compiled by the Data Cymru (formerly the Data Unit). The data on highway condition is based on a Road Condition Indicator (RCI)

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<sup>1</sup> Welsh Government is responsible for c75 miles of motorways and c1,000 miles of trunk roads. Day-to-day operation, maintenance and improvement is currently undertaken by two Trunk Road Agents who use local authorities in their areas as supply chain partners.

obtained from SCANNER surveys of the highway surface, undertaken by vehicles that drive over a sample of the highway network.

7. RCI outputs are scored between 0 and 315. Scores between 0 and 40 indicate that the observed road section is in good condition. This category is referred to as 'green' or 'good'. Scores over 40 but below 100 indicate that the location is showing some deterioration and should be investigated to see if the road needs treatment. This category is referred to as 'amber'. Any road sections scoring 100 or higher are likely to show considerable deterioration and may need maintenance within the next 12 months. This category is referred to as 'red' or 'poor'. The SCANNER survey does not specifically record the number of potholes; it identifies general surface damage and deterioration.
8. The graph below shows the trend in this indicator.



Source: <http://www.dataunitwales.gov.uk/SharedFiles/Download.aspx?pageid=30&mid=64&fileid=224>

9. The downward trend over this period can be explained by the fact that between 2012/13 and 2014/15 the Welsh Government provided a total of £170m for highway improvements via a Local Government Borrowing Initiative (LGBI). One of the conditions of accepting the LGBI was that local authorities' own highway maintenance budgets had to be protected at their existing level. This ensured that all the investment was additional.

10. The initiative resulted in improvements in highways across Wales. For example, in Rhondda Cynon Taf, the percentage of A-class roads in poor condition halved from 16.2% in 2010-11 to 8% in 2014-15. On B-class roads the improvement was 15.2% to 6.4%, for C-class from 15.3% to 13.3%. In Pembrokeshire, overall, the three classes improved from 12.7% to 9.1%. C-class saw the biggest reduction in roads in poor condition, from 15.6% to 10.8%. Cardiff saw 'A' roads in poor condition fall from 9.2% to 4.3% over this period, whilst 'B' and 'C' fell from 15.0% to 7.4% and 10.1% to 9.3% respectively.
11. However, such investment needs to be sustained if such improvements are not to be overtaken by continued wear and tear – from vehicle use and, especially, from extreme weather conditions (most notably the 'freeze-thaw' process experienced over winter).
12. Once investment under the LGBI finished and highways budgets were no longer protected, financial pressures have resulted in a substantial drop in highway maintenance expenditure. Inevitably, the network starts to deteriorate again and it would be surprising if the PIs for 2017/18 do not show an increase in the percentage of highways in poor condition.
13. Welsh Government recently agreed to provide £30m to local authorities for further highway improvement works through into 2018/19. This is very welcome but clearly at a lower level than was possible during the LGBI. Furthermore, in line with the Well-being of Future Generations Act there is a need to find a funding mechanism that will provide a long-term solution - preventing problems developing instead of (more expensive) treatment of the network once issues become acute.

## **The approach to funding and delivery of maintenance programmes**

14. Until recently, local authority highway maintenance budgets have tended to be set on an annual basis, often based on previous or historic spend. This creates a short-term, reactive approach to management and improvement of the network.
15. However, over recent years, local authorities have been working together (and with Welsh Government) to develop a more strategic approach, based on asset management principles. The County Surveyors Society Wales (CSSW) engaged with the Society of

Chief Officers for Transportation in Scotland (SCOTS) on a Highway Asset Management Plan (HAMP) working group. That group produced guidance and recommended good practice which has been promoted amongst all local authorities.

16. HAMPs explain the basis for the allocation of budgets and the development of financial plans. They provide evidence to justify the levels of budgets that are necessary and the likely impact different funding scenarios may have on the performance of the asset.
17. Another factor that has encouraged asset management planning and a longer term strategic approach has been the requirement of CIPFA since 2016/17 to include accounting information on the valuation of Highway Network Infrastructure assets in councils' Statement of Accounts. Appropriate information on highways assets is needed to meet this requirement and the HAMPs provide a good basis for this.
18. However, the production of HAMPs involves considerable work which can be justified only if there is sufficient funding available to follow up on recommendations emerging from the process. During the period of funding at the level experienced under the LGBI it made perfect sense. Likewise, Welsh Government will expect HAMPs to inform expenditure of the recent allocation of £30m. However, it becomes difficult to maintain commitment to this rigorous process when the level of funding becomes inadequate. Therefore, coming up with a long-term funding solution is vitally important.
19. The Local Government Association has highlighted the disparity between investment in the strategic road network in England and the highways maintained by local authorities (<https://www.local.gov.uk/about/news/lga-responds-aa-poll-drivers-condition-roads>) . They claim that national roads maintained by Highways England will have received 52 times more than local roads by 2020. They have called for 2p per litre of existing fuel duty<sup>2</sup> to be invested in local road maintenance – a call that has been backed by the AA. Such a move would raise around a £1bn per annum.
20. Were such a fund to be created by the UK Government it would have a Barnett consequential for Wales – potentially in the region of £50m p.a. That is approaching the level of investment achieved under the LGBI and could provide a way of maintaining investment at a constant level, appropriate to the scale of the task. Whilst WLGA opposes hypothecation, ways could be explored with Welsh Government to reach an agreement whereby this funding *would* be committed to the local highway network. The

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<sup>2</sup> Fuel duty is a tax on vehicle use (as opposed to vehicle excise duty, which is a tax on ownership). As car use has increased so has the income from fuel duty – but, equally, so has the pressure on the highway network.

network benefits all other services – and facilitates the efficient functioning of the economy. There would, therefore, there would be multiple benefits from achieving a long-term funding solution.

21. Finally, the maintenance and improvement of the motorway and trunk road network should not be planned in isolation from the county roads. Indeed, all parts of the network should be planned and maintained with a high degree of co-operation and consistency. For the user, travelling along routes that involve differently managed parts of the network, it does not make sense to have a high standard of maintenance on motorways and trunk roads if the county roads network is below standard or vice versa.

## **Disruption to road users**

22. Road works and street works cause congestion, giving rise to more pollution and impacting on economic efficiency. They can increase the risk of accidents and they result in less reliable journeys and reduced resident satisfaction.
23. In England, the Department for Transport (DfT) has consulted on the introduction of lane rental charges in England. Pilots have been run by Transport for London and Kent County Council. These were assessed as largely successful, creating a clear incentive for utility companies and their contractors to minimise the time they spend occupying the highway and encouraging greater collaboration between firms. Some utility companies expressed concerns, though, that the charges would increase their costs and act as a disincentive to investment in upgrading infrastructure.
24. In February 2018 DfT announced plans to allow the roll-out of lane rental schemes across England, giving local authorities the option to charge utility companies up to £2,500 a day for digging up the busiest roads at peak times. Schemes will need to be approved by the UK Transport Secretary and bidding guidance is to be issued in the autumn.
25. The fact it is optional would give local authorities the power to decide as to whether it would workable in their areas. WLGA believes there should, at least, be a dialogue (e.g. with the County Surveyors Society Wales) as to whether a similar arrangement should be introduced in Wales. In 2016, the Welsh Government consulted on a '*National Approach for Road and Street Works in Wales*'. This was in relation to motorways and trunk roads but local authorities were encouraged to adopt similar practices.

26. The consultation referred to the fact that, in Wales, utilities wishing to undertake work on the highway have a statutory right to do so but must give notice to the local highway authority<sup>3</sup>. It considered an alternative permit scheme under which those planning works would have, instead, to apply for a permit (permission) to occupy the highway. The legislation is already in place to introduce a permit scheme but to date this provision has met with little interest (although Bridgend County Borough Council have submitted a proposal for permitting and are currently progressing this with Welsh Government).
27. The consultation concluded: "*The Welsh Government will work with any stakeholder wishing to implement a permit scheme to establish whether there is a robust business case for the introduction of permit schemes...If a business case establishes that permit schemes are the best approach for improving the planning, co-ordination and implementation of road and street works in Wales the Welsh Government will develop and publish guidance*"<sup>4</sup> (page 6).
28. In the meantime, Welsh Government highlighted the important role of the Welsh Highway Authorities and Utilities Committee (WHAUC) – a collaborative forum for highway authorities (including Welsh Government) and undertakers that enables them to discuss issues of mutual interest and agree joint approaches and action.
29. It may be that such collaboration is the most effective approach. However, once again, dialogue between the Welsh Government and the County Surveyors Society on permitting and lane rentals would be worthwhile, learning from Bridgend's experience to date.

## **Major enhancement projects and value for money**

30. Over recent years the allocation of capital to local authorities to undertake transport schemes has reduced dramatically. Back in 2008-09 Welsh Government allocated £119m in Transport Grant for local authority led schemes within Regional Transport Plans. By 2011/12 the level of Regional Transport Consortia Grant was just £27m. Following the demise of the RTC, in 2017/18 the Local Transport Fund was only £20m. Including

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<sup>3</sup> Other bodies wishing to use the highway must apply for a licence.

<sup>4</sup> <https://beta.gov.wales/sites/default/files/publications/2017-08/national-approach-for-road-and-street-works.pdf>

other grants, the grand total in 2017/18 was £31.4m<sup>5</sup> “for schemes to improve safety, create economic growth and promote active travel”.

31. As well as capital grants, local authority capital spending on transport can include borrowing, capital expenditure charged to revenue and use of capital receipts. Total capital expenditure on transport by LAs in 2016/17 was £129.3m – a drop of 44% from the level in 2012/13. Of that £129.3m, the vast majority (89%) was spent on ‘roads, street lighting and road safety’ (with the remainder on public transport and parking)<sup>6</sup>.
32. As a result of the reduction in funding available, and the dependency on year-to-year financial allocations, there are now very few major enhancement projects led by local authorities. Partly linked to this, cuts to highway revenue budgets (and the loss of the RTCs) have reduced the capacity of local authority highway departments, resulting in increased dependence on the use of consultants. Fig 1 shows that from 2009/10 to 2017/18 Transport departments in LAs saw their revenue budgets cut by almost a quarter – which equates to a cut of £89m, adjusted for inflation<sup>7</sup>.

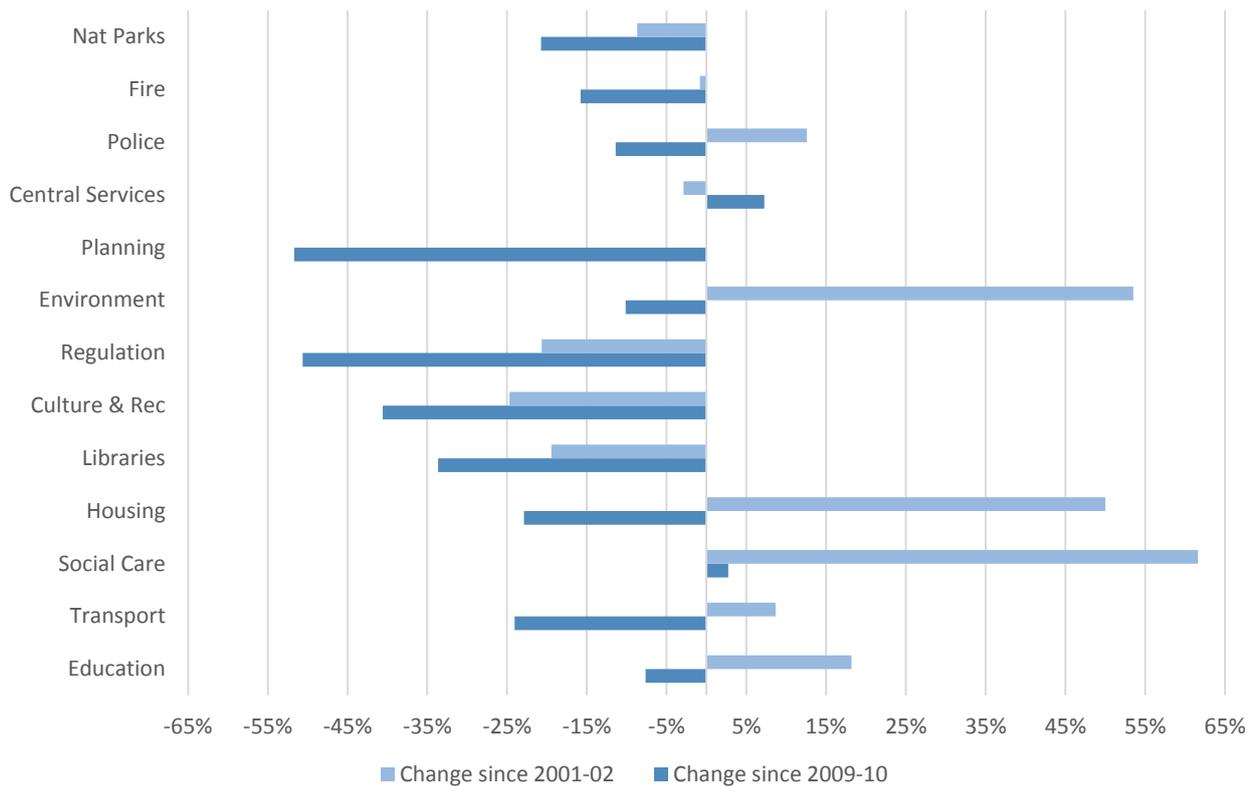
**Fig.1: Revenue spending up to 2017-18, inflation adjusted**

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<sup>5</sup> Includes nearly £4 million from the Road Safety Capital Grant, £5.5 million through the Safe Routes in Communities Grant and almost £2 million for road safety education and training programmes.

<sup>6</sup> <http://gov.wales/docs/statistics/2017/171011-local-authority-revenue-capital-outturn-expenditure-2016-17-en.pdf>

<sup>7</sup> WLGA Evidence to ECLG Committee – inflation adjusted spending 2001-02/2009-10 to 2017-18 in Wales See Page 6, Figure 3.  
<http://senedd.assembly.wales/documents/s67738/ELGC5-30-17%20Paper%201.pdf>



33. In contrast, Welsh Government capital investment in highways is increasing. The National Transport Finance Plan Update 2017 showed indicative capital spending by the Welsh Government increasing from £348m in 2017/18 to £658m in 2018/19 and £781m in 2019/20<sup>8</sup>. In January 2018, Welsh Government announced it would be committing to a five-year capital allocation for Transport for Wales. The Cabinet Secretary, addressing the National Assembly on 23<sup>rd</sup> January 2018, referred to a 2011 UK Government report. This concluded that certainty of funding over five years, and the development of long-term plans for roads through a five-year budget commitment, could achieve savings of 15 to 20 per cent. Based on this and Welsh Government capital spend on highways, he estimated that over a ten-year period savings could amount to something in the region of £630 million<sup>9</sup>.

34. The move to longer term funding is something local authorities have argued for over many years. When the Regional Transport Consortia were operating they did have a degree of flexibility to plan over a number of years. This facilitated work on major, complex projects as it was possible to switch spend across a portfolio of projects depending on how well each was progressing.

<sup>8</sup> <https://beta.gov.wales/sites/default/files/publications/2017-12/national-transport-finance-plan-2017-update.pdf> Table 4.1, page 10.

<sup>9</sup> <http://record.assembly.wales/Plenary/4898#A41088>

35. In June 2015, the National Assembly's Public Accounts Committee reported on the value for money of motorway and trunk road investment in Wales. It heard that annual funding (often confirmed late or after the start of the financial year) makes long term planning difficult and can result in short term, inefficient works being prioritised<sup>10</sup>. It also results in works being undertaken at a time of year when contractors' costs are higher (due both to poorer conditions and pressure of demand). The PAC drew a contrast with five-year budgets for Highways England. These benefits of longer term funding appear to have been recognised in the case of Transport for Wales but local authorities remain dependent on annual allocations.
36. An overall assessment of the value for money of investment in the trunk and motorway network should not limit itself solely to the strategic highway network. Rather it should consider value from a highway user perspective. Most journeys start and end on local roads. The greatest value will be realised where investments are designed to improve the whole route experience, based on regular travel patterns. That requires a collaborative approach from Welsh Government and LAs.

## **Early Contractor Involvement and the Mutual Investment Model**

37. Procurement based on the early contractor involvement (ECI) in the design process is widely seen as yielding benefits in relation to cost estimation, risk management, ease of construction and post-construction maintenance. On the other hand, it can cause disagreement between parties, with pressure to focus on cost reduction at the expense of, for example, innovation or appearance.
38. In contrast to ECI, single stage tendering excludes contractors (and their sub-contractors and suppliers) from the planning stage of the project and removes any incentive for them to notify errors or omissions. Instead, these are likely to be seized upon by contractors as a basis for future claims for an extension of time or to cover additional expenses, undermining the perceived advantage of accepting a low bid.
39. Using ECI with a properly executed contract that reflects a partnering relationship should increase transparency, reduce risk, increase shared responsibility and limit reasons for litigation. It is more appropriate for large, complex projects with numerous risks

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<sup>10</sup> <http://www.assembly.wales/laid%20documents/cr-ld10271/cr-ld10271-e.pdf> page 45.

involved, as opposed to repetitive works like routine maintenance where there is greater certainty over inputs and outputs.

40. The Mutual Investment Model (MIM) is a form of public private partnership (PPP). It involves private partners building and maintaining public assets. In return, the private partner receives an annual fee from Welsh Government to cover the cost of constructing, maintaining and financing the project. At the end of the contract term the asset transfers into public ownership. Community benefits (such as apprenticeship training) can be built in as part of the agreement. ECI and MIM are compatible.
41. The (pre-devolution) c£100m dualling of the A55 dual carriageway on Anglesey was undertaken on a PFI basis. The current £428m A465 from Dowlais Top to Hirwaun scheme is an example of a highways project undertaken based on the MIM model. One of the main differences is that MIM works according to a non-profit distributing (NPD) funding structure for PPP. Under the NPD approach:
  - The private sector takes a fixed rate of return
  - The public sector has greater control and transparency over the company delivering the project, sometimes through a “golden share” giving enhanced voting rights on key issues
  - Surplus profits are not distributed to the private sector. Instead, they can be returned to the public sector
  - There is certainly no guarantee that cost increases will be avoided but, at least where there has been ECI, it should be clearer how these are to be handled.
42. Local authorities have been involved in PFI highway schemes for the £38m Sirhowy Enterprise Way in Caerphilly and the £57m Southern Distributor Road in Newport. They received PFI credits from Welsh Government (top sliced from the RSG) to enable necessary repayments. Unsurprisingly, given that there were ‘winners and losers’ amongst LAs, only two rounds of bidding for PFI credits were held, in 1997 and 1999, and this is no longer an option. However, LAs continue to work with the private sector to develop services. The collaboration with Welsh Government over the procurement of waste facilities is a good example of this.
43. The main advantage of PPP approaches is that they allow investments to take place that would not have occurred if they had depended on *upfront* funding from the Welsh Government. They also allow an element of risk transfer to the private sector (e.g. in relation to cost overruns) and, as with ECI, can capitalise on the private sector’s

knowledge and expertise with schemes. The explicit recognition of lifetime maintenance costs is another positive element (see further comment below).

44. The primary downside is that the cost of borrowing through these deals tends to be considerably higher than would otherwise be the case (either from direct funding or public sector borrowing). There have been claims the cost can be three to four times as high as the construction cost, although it must be remembered that lifetime maintenance costs are included in the costings<sup>11</sup>. Moreover, ultimately, all such schemes are publicly funded and incur future liabilities. It would therefore be misleading to suggest that use of MIM other such models allows *more* projects than would otherwise be the case – it clearly does not. The costs and benefits therefore need to be weighed up carefully and it is important we learn from the different approaches that have been tried.

## **Approach in context of the Well-being of Future Generations Act and Active Travel Act**

45. The Well-being of Future Generations (WFG) Act requires public bodies to adopt the principles of integration, collaboration, long-term thinking, involvement and prevention. ECI is a good example of collaboration and prevention. Likewise, the LGBI initiative was positive in the way it helped LAs move from short-term 'patch and mend' to a longer-term approach, based on carriageway resurfacing - more likely to prevent the reoccurrence of pot holes. LA involvement and consultation with local residents consistently reveals that the state of the roads is at or near the top of the list of issues they would like to see addressed. The need for 'whole route'-based improvement clearly requires collaboration between LAs and Welsh Government over improvements to both the strategic and local road networks.
46. However, it is important that the principles of the Act are applied consistently and continually and not in a piecemeal way or simply for post-hoc rationalisation or justification of actions. The 2p per litre fuel tax proposal is a good example of trying to find a longer-term solution to how we maintain our roads and avoid an 'invest and deteriorate' cycle. However, even that proposal would not provide a permanent solution,

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<sup>11</sup> <https://www.walesonline.co.uk/news/wales-news/fears-12bn-bill-just-12-13923598>

given the need to decarbonise. The UK Government's plans to ban the sale of all diesel and petrol cars from 2040 means that a fund based on revenue from fuel tax does not provide a permanent solution.

47. Therefore, we also need to be looking ahead and considering (i) what transport will look like in future if current trends continue and (ii) what we would *like* it to look like. Our policy interventions should be geared towards impacting on trends to achieve desired outcomes. For example, what future do we want for electric and autonomous vehicles? How can we best deal with growth in home deliveries? What modal share do we want to see in terms of private vehicles versus public transport? How can we best tackle congestion and can/should that be done in ways that favour public transport?
48. The Active Travel Act is also very relevant here in that we clearly hope to see more people walking and cycling - for health and carbon reasons. Since the vast majority of active travel takes place on local roads, logically this should influence the balance of spend between the strategic and local road networks over time.
49. The approaches we pursue should, then, have longer-term goals in mind. Highways provide a crucial role supporting most forms of service delivery and facilitating economic development. We therefore need to consider how services are changing and how economic activity is adapting too. Ultimately, we want and need the 'state of the roads' to be fit for the future purposes for which we wish to see them used.

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