

Public Accounts Committee

Oral evidence: Maintaining strategic infrastructure: roads, HC 105-i

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Members present: Margaret Hodge (Chair); Jackie Doyle-Price; Mr Stewart Jackson; Mrs Anne McGuire; Austin Mitchell; Nick Smith; Ian Swales; Justin Tomlinson

Amyas Morse, Comptroller and Auditor General, Gabrielle Cohen, Assistant Auditor General, Geraldine Barker, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Philip Rutnam, Permanent Secretary, Department for Transport, and Graham Dalton, Chief Executive, Highways Agency, gave evidence.

Q1 Chair: Welcome. On the whole, this is a good Report, showing progress. We welcome all that and things are moving in the right direction. Perhaps we can have this hearing in the context of very much recognising and welcoming the improvements since we last looked at this matter. May I start with a general question? As I was looking at it, the amount we spend on maintenance is about 1% of the asset value of our infrastructure. Have you any idea whether that is appropriate and how it compares with people you could benchmark yourself against in other countries or anything like that? Have you thought about that at all, or is it always incremental, a little bit up or a little bit down?

Philip Rutnam: It is a very good question. I would observe that, relative to the cost of construction, roads are a relatively cheap asset to maintain, certainly compared with railways, which consume a lot of the Department's other expenditure. Graham, of course, is a chartered engineer, so I will ask him, as chief executive of the Highways Agency, to give a more expert view on the long-run cost of maintaining a road, relative to the cost of construction.

Graham Dalton: I think the direct answer is that I do not use a percentage of asset value as a guide, for two reasons. The first is that it depends how you calculate your asset value. Is it what it cost to build? Is it the theoretical replacement cost, which it is for the Highways Agency. The value could vary quite a bit by accounting approach. Secondly, science these days is about keeping the asset in a steady-state condition. If we build up enough knowledge, we have enough ability to measure the road condition and the asset condition. But if we are keeping it in a steady state, we build the familiarity with what we are spending to do that, rather than a hypothetical—

Q2 Chair: I understand the first part of your answer. The second part presumes that we know the condition, and we do not. That is one thing that comes out in the Report. Both at national and at local level, there is not comprehensive knowledge about the state of the asset, even if you do not know about the value.

Graham Dalton: The bit about value is about how you account for it; it is not knowing what is there. With respect, the Report points to parts of the asset where our knowledge is not so good and explicitly identifies drainage. Our knowledge of the drainage systems is significantly less than it is for all the other parts of the asset. On the pavement, the important bit, the asset databases are very well populated: 90%-plus detailed assessment, including pavement condition.

Q3 Chair: What about local authorities?

Philip Rutnam: The data there is much more patchy in coverage, by asset type and by authority, so it is nothing like the same level of comprehensiveness that has been achieved by the HA over the last several years.

Q4 Chair: So there is a problem, therefore, in deciding how much you need to maintain if you do not know the state of what you are trying to maintain.

Philip Rutnam: There is a very real issue about raising the quality of the evidence base available to local highway authorities and, ultimately, to us as a key stakeholder and funder. There is a very real issue about that.

Q5 Chair: Okay, so back to my question. Where are the benchmarks internationally about the right amount of money that ought to be spent, given—we will no doubt go on to discuss it—people’s perceptions, the increase in claims, and what the industry says about the state of our roads, which I accept is probably a somewhat partisan view? Given all that, what is it? I am open if you say you don’t really know.

Graham Dalton: I am trying to think about it. In terms of pounds per kilometre and pounds per lane mile, we are not benching. We have tried to do that with other European nations—the comparable ones with intensively used networks. I think the NAO looked at it a little bit in 2009 in its previous Report. It is difficult to draw real conclusions.

Q6 Chair: Why?

Graham Dalton: A willingness to present data, different usage of network, different approaches. But what we do compare a lot is how we go about maintenance and some of the resource maintenance. It is the winter service and winter things. We do a lot of work with the other European nations to see that we have comparable approaches and comparable technologies. Our asset management systems are similar to those used in other countries as well. That is what we do, and then we come to the local markets. We take out the cost. Having determined what you need to do, we try and do it for the best value we can.

Q7 Nick Smith: I want to talk about maintenance in a short while. To bring you back to the clearing of gullies, in Blaenau Gwent at the top of the valley, we do not get much flooding, or we have not until recently. Except for now, not enough money has been spent on the maintenance of gullies. With the extraordinary rain that we have been having occasionally in recent years, I have got more examples and casework of flooding of homes. It would not surprise me if other colleagues were experiencing that, too. What can we do about that, because I am getting people flooded out of their homes? The stink is terrible. They sometimes cannot get insurance cover for it. It seems to be a growing issue.

Philip Rutnam: I will ask Graham to talk about drainage on the HA's asset base. As far as local authorities are concerned—local authorities in England have responsibility for this—fundamentally what we are trying to do is to encourage them very strongly to change the dominant business model, which, in highways in local authorities, has been one of reacting to events, and we are trying to encourage them to move to an approach where they are anticipating, predicting and preventing events. We can talk about that quite readily in relation to the surface of the asset—the pavement. It is a bit trickier with drainage, because often the drainage assets are the most difficult to access and are quite difficult to survey. But the same basic principle applies, that you are trying to understand the condition of your asset and get to a position where you can plan in a really well thought-through, prioritised way which assets needs attention when. Some of it will always be reactive because the most cost-effective thing to do will be reactive, but fundamentally we are trying to encourage them to understand the risks in relation to their drainage assets just as we are in relation to the pavement surface.

Q8 Nick Smith: That is a really fine answer and beautifully delivered, but I am still not sure that it will get the gullies around the rest of the country cleared—certainly, in Blaenau Gwent—which are presently covered in grass and moss. What are you going to do to show that this is taken up, delivered and changed at a local level?

Philip Rutnam: I take the point, but we do not just rely on fine, theoretical answers. We are also heavily engaged with local authorities in practical steps to try to help them and, indeed, us as part of the system, to raise our game. We have something called the Highways Maintenance Efficiency Programme, which might sound rather a dull name but is actually all about trying to change this way of thinking about maintaining and operating highways in the local authority sector, and trying to raise the visibility of it. That is one important part of it.

The other thing we do is to respond—as local authorities do—to events and try to respond to them very quickly and effectively when they are of sufficient scale and magnitude. I am very happy to talk about our response to the exceptional weather events of the last winter, but our response to that is not only about addressing the events themselves but about trying to get on to the radar and the agenda, for local authority leadership as for our own leadership, the need to think about predicting and anticipating events. For example, we have a study at the moment being led by Richard Brown, who is one of the non-executive directors in the Department, into how to increase resilience in the whole transport network. We are responding to events with money but are also trying to engage in some proper planned work. Graham can talk about drainage and gullies in the very extensive Highways Agency estate.

Graham Dalton: For a long time, if you like. My responsibility stops at the far end of the Severn bridge—both Severn bridges. We have changed our specification at the Highways Agency.

Having a specification that says, "Please go and clean the gullies once or twice a year," is probably a waste of money, because 80% of them are either self-cleaning through flow of water or do not silt up and get leaves on them, and you end up wasting money. The other 20% probably need doing more often or need work done on them. So we specify by performance and our specification says, in the simplest terms, "There shall be no standing water on the network."

Q9 Nick Smith: Do you know if that is done?

Graham Dalton: We supervise on our contracts. It is not 100%, because I occasionally get complaints that gullies are not free-flowing. Indeed, I stopped in February when I was coming up from the south-west and called in one that was not free-flowing. We have gully suckers and so on on stand-by, and one issue when there are things like severe weather and severe flooding is to make sure our contractors have access to plant and machinery and are not caught out because everyone else has it first.

Q10 Nick Smith: One very chunky issue is that a lot of the maintenance work seems to be done during the winter, when it is dark. That means that local authorities, it seems, are chasing the same contractors, which is putting up costs. Would it not make sense to change your funding arrangements and get the work done in the summer instead?

Philip Rutnam: I would, in general, agree with that. We want to see a pattern where spend is more evenly incurred over the year. In relation to local authorities, I do not think that it is really down to our funding regime—the DFT element of the funding regime. We have provided, as is described in the Report, quite a lot of extra funding and often in response to particular events. That has often been quite late in the financial year. However, the funding we provide to local authorities can be carried forward readily—all of it—from year to year. We do not require it to be spent by the end of the financial year.

Q11 Chair: All the funding?

Philip Rutnam: Well, the funding we provide—unless particular milestones have to be achieved, for example in relation to building a bridge—is flexible for local authorities from one financial year to the next, so the reasons why local authorities incur a surge of spend towards the end of the financial year are a bit more subtle and a bit more fundamental in relation to the funding we provide—

Q12 Chair: May I stop you and get some clarity on that? As I read the Report, it told us that it was your constraints that meant that they had—

Geraldine Barker: It is Government funding—so DCLG funding and DfT funding. Because it is capital, it will be related to delivery of milestones.

Chair: Say that again.

Geraldine Barker: Sorry. The Department's funding is capital, so it will be related more to the delivery of milestones, rather than spending in-year, for part of it.

Q13 Chair: The stuff that you put through the grant—

Philip Rutnam: Can be spent either in this financial year, when we provide it, or in the following financial year.

Q14 Chair: Right. And the stuff you put in capital programmes?

Philip Rutnam: I'm sorry. The funding that we provide—

Q15 Chair: There are two bits, aren't there? There is the chunk you put in through the local authority grant—

Philip Rutnam: Almost all Department for Transport funding for local government is capital, and it is almost all not required—not specified—to be spent within that financial year. It can be carried over from one financial year to another. But the issue is the way in which local authorities go about setting their budgets, and the constraints on how the local authority budget as a whole operates are financial year by financial year. That goes to the system of local government finance and, in particular, the way in which local authorities operate their budgets.

Q16 Chair: I have to say, I did not read that in the Report. Have I misread the Report? I read the Report as saying that one of the constraints on local authorities doing proper planning and spending their money sensibly was central Government funding rules. A number of us around the table have been in local government; the only reason why you spend in March, before April, is because you are told to by Government, not because the local authorities have chosen to.

Geraldine Barker: The emergency funding has not helped either. You have got this—

Q17 Chair: The what funding?

Geraldine Barker: The emergency funding that is announced towards the end of the financial year.

Q18 Chair: But is it time-limited? What the Report suggested to me was that they were working under time-limited constraints.

Geraldine Barker: Some of it is time-limited.

Q19 Chair: Right, so can you two agree between you what is time-limited, so we can get some understanding?

Philip Rutnam: Our capital grants to local authorities are not in general—

Q20 Chair: I am muddled, Philip. This is not being difficult, I am just muddled.

Philip Rutnam: Other available funding that central Government provide to local authorities does have to be spent in the financial year. The bulk of their funding, which comes from DCLG—

Geraldine Barker: Yes, we completely agree with you. The graph—

Philip Rutnam: I was trying to make that point—

Q21 Nick Smith: It is important to get that all sorted out, for sure, but how are we going to stop all this work being done in February and March, because that is the outcome?

Philip Rutnam: Okay. For local authorities, it is going to be a hard task. My best answer is that, ultimately, it comes back to encouraging by one means or another the local authority to have a plan for several years ahead on what it needs to do with its highway assets.

Q22 Nick Smith: It sounds like you are going to whisper in their ear, “Oh, come on, this just isn’t good enough. You have got to do better than this. All this work being done in February and March just feels”—

Philip Rutnam: It is a bit more than that—we are not whispering in their ear. I have already talked about the Highways Maintenance Efficiency Programme, which is actually a really important piece of this. The other thing that we are already starting to do, and have signalled to local authorities that we are thinking of doing much more and on a bigger scale is creating financial incentives for them. The example that we have right here and now is the scheme we are operating at the moment called the Potholes Fund, which is a very important initiative for England of around £170 million. We have been really clear that the way in which we allocate that will depend on the evidence that we are getting from local authorities about the quality and the efficiency with which they are managing their asset base.

Q23 Nick Smith: Will that stop all this work being done in February and March?

Philip Rutnam: It will help. That is why I said it. It is a hard thing to do, to switch completely. It is a very large complicated system, but it will help. The further thing we are doing—

Q24 Nick Smith: But is it not costing us a lot of money, because all the contracts have been let at the same time and resource is being stretched, and it is therefore more expensive.

Philip Rutnam: I will ask Graham to comment on that, because there is something of the same phenomenon in the HA.

Q25 Chair: To get some clarity, can I ask you to look at page 30, which tells us something that is slightly different from what you are telling us here? It states: “Highways authorities”—I assume that means the Highways Agency and local authorities—“plan their work programmes on indicative budgets, provided annually in December by central government.” You give them indicative

budgets in December, and “actual funding is agreed in the spring”. I know that the civil service definition of “spring” means May or June. You are already three months into the year and “highways authorities revise their plans... Consequently most road maintenance is done between September and March.” The graph on page 30 shows that the spend is all at the end of the year. That is what Nick is on about. I think it is your constraints; I do not think it is the constraints of either the local authorities or the Highways Agency.

Philip Rutnam: Two points, to clarify. I do not want to debate the text—maybe you want to have a broader debate—but as I understand it, the indicative budgets are provided by CLG as part of the local government finance settlement, not by the DfT. We are talking about the totality of the settlement that CLG provides for local government across all its services each year. The same, of course, is true of what is finalised in the spring. The same would be true of all local government services that are funded out of the revenue support grant and the business rates scheme that now operates.

Geraldine Barker: I think what might be causing some of the confusion is figure 14, which relates to the Highways Agency spend and shows that it peaks towards the end of the financial year. There is a footnote at the bottom of page 30, which confirms that highways authorities have some flexibility in carrying over. It is the combination of high spend by the Highways Agency and local authorities working within constraints.

Q26 Chair: So why do you guys spend it all at the end of the year?

Graham Dalton: I cannot carry over into a new year.

Q27 Nick Smith: You cannot?

Graham Dalton: No, I am on an annualised budget, unlike a local authority. I do try to hit end of year. We have got a performance culture within the agency that, for whatever reason, we will get on and get the work done. We have a system where we spend time at the beginning of the year getting design done, when we have confirmed budgets and schemes. We confirm budgets before your version of the spring—before the financial year starts. My budgets for the current financial year were confirmed in December, and allocations were made in January and confirmed to the contractors. We then get into a design process of planning the work process and, for the larger schemes, our prime contractors then buying it.

We have a consistent story that we run at a steady rate through the year, and then there is push at the end of the year. One of the reasons for the reform that is going through—I think the Bill has been introduced to change the status of the agency—is to put us on to a footing where we actually have certainty of funding over a five-year period, as other utility firms and infrastructure companies have.

Q28 Ian Swales: Can you say genuinely, when we are looking at figure 14, that that money is spent in March, or is this simply accountancy, and various provisions and so on are made? If we take those 2011-12 figures, the idea that you spent five times as much money in March as in the previous May beggars belief.

Graham Dalton: I can confirm that the money is spent as those profiles show. I have in my bag the accounts for 2013-14, which have just had a very good audit, thank you, from the NAO. One thing that was particularly looked at this year was accruals, to ensure that, where things had not been invoiced at end of month, we were accounting correctly for the work actually done.

Q29 Austin Mitchell: I cannot see that you have the consistent spending policy that Mr Rutnam is advocating, either for local authorities or the agency. If the budget is subject to constant cuts and boosts—you do not have continuity of budget—and if increasingly hard-pressed local authorities can divert money from the budget into other purposes as well, how can you have consistent spending policies?

Philip Rutnam: I agree that in relation to the Highways Agency and local authorities we should be trying to move into a world where budgets are much more predictable, and where they can be planned and built on with much greater confidence. In fact, we are planning to do exactly that with local authorities. In the 2013 spending round, we announced our forward plan and commitment from the Government in relation to the main capital funding that we provide for local highway authorities for maintenance, which is called the highways maintenance block, all the way from 2015-16 to 2020-21. We have already set out those numbers, and that is a really important change from the world in which we had been. That funding is also at a higher level than previously—a step change. Given that step change and the greater predictability, I hope that we will be able to get out of the practice of some of the rather reactive announcements of the past two or three years that were not necessarily anticipated by local authorities and were therefore more difficult to respond to.

There will still need to be some ability in the system to respond to flex from time to time, and central Government will have a key role in that, but we are trying to build greater predictability of funding for local authorities, and for the Highways Agency, which is why provisions in the Infrastructure Bill have been brought forward.

Q30 Austin Mitchell: It looks like the Government dug you into a hole in 2010, with cuts in spending, and then suddenly decided that that was too bad and increased spending. Was some of that increased spending because of the weather? If you have exceptionally bad weather, is more money provided to rescue you from it? What happens to that money?

Philip Rutnam: Some of it was, but not all. From memory, about £1.1 billion of additional funding, over and above SR 2010, has been provided for road maintenance since 2010. If you take the weather events in 2010 and 2011, as well as the recent ones, and you split the funding between weather related and non-weather related, a bit under half was weather related—£400 million. I can do the arithmetic for you, but it was of that sort of order. Other significant funding includes the Pothole Fund to which I referred earlier, top-ups to the highways maintenance block and the pinch point fund, some of which is maintenance related, all of which are not directly dependent on weather. Of course, what causes a pothole is a matter for debate, isn't it?

Q31 Austin Mitchell: So local authorities need to pray for bad weather. Most of the estimates of the costs of maintenance failure say that that will lead to increased spending later on and will cost in the long run. That is hypothetical, but do you keep a balance on the amount of money that you have to spend on maintenance problems, and when that rises, do you go in and do

the maintenance? I only ask because we were driving along the M80, and my wife—I was not driving—drove into a great pothole and it smashed up the front wheel. She claimed money from the Highways Agency, and got it. There must come a time when such payments rise to a crescendo and you decide that you had better fill in the pothole. How does that work? Why are the figures of increased expenditure due to bad maintenance not quantified?

Philip Rutnam: I think that is a question for Graham.

Graham Dalton: If you were unfortunate enough to hit a pothole—a defect—on our network, and you got a pay-out on it as well, that suggests that there was a failure in our contracted maintenance regime, because it had been detected and not repaired within the given time. We have a very low pay-out rate. Actually, we have a fairly low claim rate; there are more claims in the winter. Most of the HA network is a high-speed network and we need to keep it safe. We have a very low rate of successful claims against the agency for damage to vehicles, and we are keeping it pretty much at that level. It has gone up a little bit over the past couple of years, but not by very much.

Chair: I think that we will come back to local authorities.

Q32 Mr Jackson: Apologies if this issue has been covered while I was out of the room, but I understand that 45 local highways authorities have not yet completed an asset management plan prior to the change in Government structures. What comes across from the Report is lots of advice and carrot, but not much stick, and I just wondered whether you could use the funding mechanism proactively to encourage collaborative working between counties. That might be more efficient in terms of value for money, because at the moment it seems that things are fairly well run and maintained on major trunk roads and highways, but the supplementary infrastructure is not so good. Have you thought about how to encourage local authorities to understand the need to programme maintenance properly and work together on local roads in the interests of value for money?

Philip Rutnam: That is exactly the direction of travel. Funding incentives involve carrots and sticks—that is one of the beauties of them. We are allocating a £168 million fund for the repair of potholes in England, and we have made it abundantly clear to local authorities on the forms that they have to fill in that we will be weighting the amount that they get either up or down, depending on the evidence that they provide about their programme raising the efficiency and effectiveness with which they manage their asset base. That may mean that they have asset management plans, or are working in collaboration with other highway authorities—the very issues that you have just raised. It is an important initiative, but in the overall scheme of things it is a relatively modest amount of money, albeit important.

We have also said that we will consult this summer—we have been talking to local authorities informally about it already—on applying some of that thinking to the way in which we allocate what is known as the highways maintenance block. That is the main funding stream that the Government provide for capital maintenance of the local authority network and amounts to just under £1 billion a year for each year from 2015 to 2020. We want to work in partnership with local authorities in that respect, but that must combine enabling measures, such as the efficiency programme that I talked about—toolkits, collaboration and making it easy for the sector to work together, led by the sector but funded by us—and some incentives. That is exactly the direction of travel you suggested, Mr Jackson.

Q33 Mr Jackson: How do you encourage local initiatives? The A14 is probably slightly atypical, but what about the A47, which runs all the way from the east coast to the midlands, and which Ministers have considered recently? How do you get all those disparate local authorities to work together to develop the most cost-effective, value-for-money scheme to upgrade that road? Do you have a mechanism in place to do that?

Philip Rutnam: The A47 is a Highways Agency road, so it is one of our responsibilities to run it, but none the less, working in partnership with local authorities is critical. You are right that the A14 is atypical, but we have had a pretty good record in that case of working in partnership with the authorities along that route. It is a shared effort between the HA and the Department. I have to say that I don't know where things are at on the A47, in terms of engagement, but what I would expect to see from our own people—we have local engagement teams in DfT, funded by DfT—and from the Highways Agency is active outreach and engagement with the local authorities at chief executive/leader level, because it is a very significant artery, and with the local enterprise partnerships. Graham, do you want to say something about it?

Chair: I bet that fills you with confidence, doesn't it, Stewart?

Mr Jackson: Yes. You were doing well, chief.

Philip Rutnam: Sorry; I should have said "and with the MPs as well," of course. That goes without saying.

Graham Dalton: There are two slightly different subjects there. The A47 example is about improvement. I have wanted for a long time—since I started the role—to have route plans or route strategies. I was delighted when Ministers picked up on that a couple of years ago; we are halfway through the sample of route-based strategies, of which the east-west route at the top of East Anglia is one. That is not to be confused with the feasibility study that is running at the moment. That is where we identify with local authorities, developers, the community, hauliers, operators, and what the demands are on the strategic road network. We can then build an improvement plan, some of which will be affordable and some won't, but at least we will plan how we pick things off.

When it comes to maintenance, which is a core subject of the Report, I have a clear policy of not going along and telling local authorities how to do their job. We co-exist. I am very aware that we have strategic roads that are needed in local authority areas and run through the heart of the area. The motorways tend to be pretty well defined and confined but, especially when we get out to more rural areas, we do a number of things such as sharing depots.

On trunk roads—I am responsible for the maintenance—local authorities do litter-picking. We encourage them and try to give advice on when we will put on traffic management roadworks, to protect a work force. We will ask them to come in under cover of that, so their people can do litter-picking in safety. Especially when it gets tough in winter with flooding and so on, mutual aid arrangements on the whole—they are at local level—work fairly well. It is important that they are there. Things such as salt stocks, salt spreading, and going that extra 100 metres off the end of my network to an important logistics depot or whatever it may be, matter. That is where the co-operation needs to come.

Q34 Mr Jackson: So here is a practical example. I might write to you, as I did some years ago, and say that at Soke Parkway, the A47 cuts my constituency in half east-west on the way to

Leicester, and my constituents are complaining about road noise because their houses are near the A47 and we need whisper-quiet technology. That, incidentally, was provided for the chairman of the Conservative party in his constituency some years ago, before he was Conservative party chairman, because he was an assiduous campaigner. The point is that we need the whisper-quiet technology, but you are saying that MPs are a right pain because that will interfere with your normal maintenance programme. How do you balance the real needs of representatives—city and borough councillors and MPs—who say, “This is an important issue for our constituency,” and plan maintenance, which may involve something very dull and prosaic such as a bridge-strengthening programme further up the line? Do you have a methodology for dealing with that?

Graham Dalton: Road surfacing and the noise from it is a real issue that has run for a good many years. There was something called the *Hansard* list, which was before my time, of the sites that had to be done. DEFRA is now responsible for noise quality and monitoring in the country and has noise maps and first priority locations. You are not the only MP who has written to me and, for the avoidance of doubt, I take all the letters seriously—

Q35 Mr Jackson: I stood on the edge of the road with a phone.

Graham Dalton: It is noisy, and there are still some concrete road surfaces left that are noisier. We are operating to a considered and applied policy that we do not resurface simply for noise, and we have not done for certainly as long as I have been in this role. When we resurface, we use low-noise surfacing material. That is what happens when the resurfacing is done. I will write back honestly saying whether something is in my programme to be done for maintenance need or not.

Q36 Ian Swales: May I touch on an area we called exceptional weather? Mr Rutnam, you talked about exceptional weather and then gave some dates year after year. I think we are all learning that exceptional weather is not that exceptional nowadays. My question is around road design and whether we are learning anything about it. To give an example, a new stretch of road was put at the new interchange on the A66 at Longnewton between Stockton and Darlington. Every time it rained heavily, it flooded to the point where the road had to be closed. That now seems to have been rectified, but I wonder if exceptional weather is affecting design and whether it should. If we end up having higher maintenance bills because of exceptional weather, we maybe need to look back at how we put new roads down in the first place.

Graham Dalton: A piece of road built now is designed to take more intense rainfall than if it had been designed and built 20 or 30 years ago. Something on the A66, from recollection, is one of the PFI contracts from the mid-90s—I might be wrong, but I think it was—and it would have been the contractor’s responsibility to put that right. It is very unusual to have a problem like that, so I hope it has been rectified. Please let me know if not.

There is quite a bit of effort we put, in the Agency—as well as improvements and capital investment—into identifying areas where, if there is a flooding problem, we invest. For example, the A27 down on the south coast at the foot of the south downs has had a series of winters with severe rainfall. The area is just east of Chichester, where we completed a pumping station just over a year ago—15 months ago. It was not just a case of improving the drainage as there was nowhere for the water to go, so we had to put in a pumping station to get rid of it. That sort of increased resilience is where we invest.

Q37 Ian Swales: Just to confirm, you are saying that if we look at the design standards you demand now, you would be taking significantly higher levels of potential water off the surface?

Graham Dalton: The design standards now are around higher intensity rainfall than they were 20 or 30 years ago when parts of the network were built. There will still be weather events that exceed that, over a short duration. It is important this is maintained, so we build in things like balancing ponds. You cannot get rid of all water at once, so you have what looks like a big hollow in the ground or a very small lake in a big dip, and they are designed to take water. The long, sustained rain last winter went on week after week, and we had some places around the country where we were sending tankers in to empty water out of those ponds because there was nowhere else for it to go—to protect the houses.

Q38 Ian Swales: To expand on this, are there any cases where you are doing something radical such as putting a culvert underneath a road to help to solve a flooding problem with a new road? I am trying to find out whether the highways system is helping us with the issues we clearly have around the country at the moment, and whether you are ahead of the curve, not just on it.

Graham Dalton: We brand it—it sounds a bit technical—climate change adaptation, because we are talking about not just rainfall and water, but wind, snow, high temperature, low temperature and everything else. Are we ahead of the curve? In terms of network resilience, we are trying to be up there with the best and we try to keep the network resilient, but improvements to the existing network—I am predominantly thinking about an existing network—are about tackling the weaker spots. We do not build an awful lot of new road. Indeed, much of my capital programme is about adding capacity to what we have. Where we have a new offline scheme, and we have a number going at a time, things like drainage systems are designed to take the run-off, and recognise the watercourses and where the water will go afterwards. It certainly should not make things any worse. We do not set about making the whole local area better, but if an existing road is a problem—performing a barrier—we will probably address it.

Q39 Ian Swales: Can we pick up paragraph 2.21 of the Report on page 37? I am always struck whenever I see the expression “perverse incentives”, because I think we have so much of that in public sector financing and here we have it again. In the first bullet, on allocations to local highway authorities, it says there were: “perverse incentives in the current formula as it uses asset age as a proxy measure for condition.” It then goes on to comment on why that might be a bad thing to do. It could also lead to postcode lotteries. Anyone who drives around the country recognises that you can seem to be moving from one planet to another when you cross a local authority boundary. Would you like to comment on whether you need to be a bit more sophisticated in how you allocate money and remove those perverse incentives?

Philip Rutnam: You will be familiar with the systems for allocating grants to local authorities; there is always a debate to be had about which things you use to allocate. I believe that in the past the highways maintenance block, which is what the Report refers to, was allocated on the basis of a condition assessment. That was dropped because the view was taken that it created a perverse incentive, and the current system was an attempt to improve on that. In any event, we are reviewing it and looking at how we should allocate the highways maintenance block going forward. As I indicated earlier, the key issue is how we use the allocation system to create some positive

incentives to raise efficiency and think ahead about the management of assets, and to do all that on a preventive rather than reactive basis.

Q40 Ian Swales: To what extent are you using traffic volumes as part of the formula? I would have thought that they were pretty important.

Philip Rutnam: I don't think it uses traffic volumes. As I understand it, it essentially uses numbers and types of structure—for example, road length and bridge numbers. It is essentially a question of how many of these different types of structures a local authority has.

Q41 Ian Swales: I suppose my local authority will not thank me for saying this, but in an area such as mine that is probably lighter on traffic than some of the really heavy urban areas, I see roads being resurfaced and think, "Why are they doing this?" I go to other parts of the country and the situation is absolutely disastrous. Surely you cannot use just age; you have to take some account of traffic volumes, types of traffic and conditions. How can it be right not to do that?

Philip Rutnam: As I said, there is always a debate about how to allocate grants to local authorities. There is never a perfect answer and there is always a trade-off between a system that is simple enough to be manageable and understandable, and one that reflects the whole array of different factors that could drive cost. We will be consulting this summer on the allocation methodology for the highways maintenance block going forward.

By the way, I would add that there is some empirical evidence to support the view that there is more stress on local road conditions in the south-east, and perhaps also in London, than there is in, for example, the north-east. That is shown in the road condition statistics that we published a few months ago.

Ian Swales: I'm not surprised. I would have thought that volume of traffic should be looked at.

Q42 Mr Jackson: The debate in the Report is really about the use of capital and revenue resources, and it is quite complex. Is there any forward thinking in the Department about involving the private sector? I know that PFI is now a dirty word—three words—but what about on capital projects to release funding for planned maintenance and revenue funding over a period of time? PFI was originally about roads and bridges; it morphed into community colleges, schools and hospitals to our cost, we know. Are you thinking ahead about transport infrastructure? That is the lesson from the United States, where they have a terrible problem with transport infrastructure—their freeways and so on are falling apart. Are you doing any similar forward thinking about PFI?

Philip Rutnam: We absolutely keep an open mind. I would describe our approach to that question as fundamentally pragmatic—what does the evidence tell us about the route to getting something done that is most likely to deliver best value? It is a pragmatic approach that depends on the evidence. At the moment, it is not as though we see a great forward book of PFI deals to be done in transport. We have had quite a lot. Going forward, we see the focus being on delivery using public funding, essentially. We will keep looking out for opportunities to use private finance and PFI, but the great bulk of our activity is oriented towards how we get the right structure and environment: for example, to maximise the value we would realise from the forward plans for roads investment

through the new Government company in highways; and, equally, how we get maximum value from the £6 billion that the Government have set aside for capital maintenance in local authorities from 2015 onwards. That is the centre of our thinking.

Q43 Mr Jackson: But if you are able to regularise your planning in terms of the investment in capital in the private sector, you could then regularise and formalise to give more stability to, say, local authorities in revenue funding for their maintenance programme. That is what I am getting at.

Philip Rutnam: I understand, but I think that is true only if we are able to switch between capital and revenue, and that boundary is guarded with iron gates by the Treasury. I think the point I would make is that it is important for decision makers, including the Treasury and the whole system of government, to understand in this area the value of revenue spending as well as the value of capital spending. We mustn't suppose that infrastructure is all about capital projects; it is not. It is about maintaining, in good quality, the assets that we have, and that requires revenue spending.

Q44 Nick Smith: This is the same sort of furrow of the plough. On page 29 of the Report, under certainty of funding, the NAO has, as part of this Report, surveyed local authorities, 35 out of 46 of which said that the pattern of stop-start funding hindered them from getting value for money. Infrastructure UK says that certainty of funding is associated with unit cost savings of 10% and 20%. It is making the point you have just made for you, or one that is complementary to the point you are making.

You talked a bit earlier about trying to improve funding certainty for local authorities. Do you think that, if the NAO did the same survey in a year or two years' time, they will be making the same complaint, or will you have sorted out these wrinkles in funding and given them certainty?

Philip Rutnam: It is complicated enough with a single entity like the Highways Agency, with its large and complex asset base. The 152 authorities that have responsibilities for highways in England are an array of different sizes, and have different capabilities, priorities and local political accountability, which is central to local government. It is a complicated and difficult problem to change the dominant patterns of behaviour.

Q45 Nick Smith: But there is a chunky saving in there of nearly 20%.

Philip Rutnam: What I am trying to get at is that I think we need to recognise that we have to stick at this for some time. We need, as a Department, to stick at trying to provide predictable funding, preferably at a high level. We need to stick at creating a system that incentivises the right sort of behaviour. We need to work very closely with the system, with huge respect for the talent and capability that is in the system; they know much more about managing local roads than we do. We need to work with the system in a mutually respectful way to try to change patterns of behaviour. You asked me about a year or two; give me three or four years—

Q46 Chair: Mr Rutnam, you have just heard a suggestion from Stewart: you just make it a condition of funding. It is not that difficult. You could make it a condition of funding that they have an asset management plan, which would help them do it more sensibly; that they collaborate across local authority boundaries; and that they innovate. In fact, the Report says that they want you to

make it a condition of funding that they innovate. We are making things so complicated; that is an easier way of doing it.

Philip Rutnam: I am not disagreeing with what you suggest as an approach. Government still need to make decisions as to exactly which of those things, if any, they are going to do. I am not disagreeing with the approach; I am just counselling a bit of realism about the complexity of the local government landscape. Local governments have umpteen different services departments, for example. The same budgets that will fund revenue maintenance for highways will be funding aspects of social care, so we have to work with them and understand the world they are working in. We cannot just suppose that they will change over the course of a year. It is quite a complicated system that we have to work with.

Q47 Mr Jackson: The recommendations on page 9 potentially give rise to the perversity that Mr Swales referenced earlier. It talks about “identifying criteria to target the Highways Maintenance Efficiency Programme at those local highway authorities that need the most help”. That could mean those that have let the network fall apart, so there is an element of perversity. The second part is “for local highway authorities to justify planned preventative maintenance.” Will there be a bureaucracy for people who are trying to be proactive in making appropriate changes to their estate? I think there is a danger of throwing the baby out with the bath water. You should be rewarding good authorities, but, frankly, you should clobber bad authorities, using fiscal methods if possible, who are not following the guidelines that you are giving.

Philip Rutnam: I suppose I would say this has got to be about raising the bar in the local government sector for managing roads. Raising aspirations and raising the level of achievement is, if you like, a different way of putting the same point. It is putting it positively rather than negatively.

Q48 Mr Jackson: You are a glass half full kind of guy?

Philip Rutnam: I am.

The other thing I want to say, as I have the glass half full, is that a leaflet about the Highways Maintenance Efficiency Programme, which I looked at before coming here, is really good, full of good examples of things that have been done and good programmes in the sector. Above all, it says on the very front that this is for the highway sector, by the highway sector. If this whole approach of trying to raise performance in local government in this area comes as the Department for Transport telling local government what to do in prescriptive detail, I think it will fail. It has to be about the sector itself raising its aspiration and finding, to a very significant extent, its own solutions, which actually lie in the sector. There are fantastic examples of good practice, just as there are some examples of very poor practice.

Q49 Nick Smith: We around the table spend a lot of time producing leaflets. I remember someone once telling me that the average life of a leaflet is five seconds: people pick it up from their doorstep, turn around and put it in their recycling box. I am persuaded by your agenda of challenging local authorities, toolkits, collaboration and asset plans. It all feels as if it is going in the right direction, but we are still seeing routine maintenance being cut, aren't we? That is what is going on here. What safeguards have you made to prevent reductions in routine maintenance,

which result in higher long-term costs? Are you making sure that balls are not being dropped that are going to cost us more money in the future?

Philip Rutnam: For local authorities, the main things we can do are to provide capital funding, because that is the funding we provide, and to do all the things that we have been talking about. By way of best practice and incentives and so on, we have provided significant extra capital funding, over and above the reductions in the spending review 2010. The Report, in fact, points out that if you add it all up, capital funding for local authority maintenance has gone up since 2010. It has gone down a bit in the Highways Agency, but it has gone up by about 3%, I think, in local authorities. We have set a new plan for our capital funding for local authorities for maintenance from 2015 onwards, which is 35% higher than the baseline level for this year. The baseline for this year is just over £707 million. The figure we have set for the next Parliament is £976 million.

Amyas Morse: Does that mean that is how much we are underspending at the moment, would you say?

Philip Rutnam: I don't think it is actually possible to say how much we are underspending or, indeed, to know whether we are underspending.

Amyas Morse: So it is a reasonable point, is it, to say, just out of your own mouth, that if we think it is desirable to take it up by that much it is fair to assume that it is not at the right level now?

Philip Rutnam: There clearly is evidence of stress and strain on the local authority network. We don't dispute that. We have talked about short-term issues in relation to the need to deal with potholes—

Amyas Morse: But if you had your way at the moment—forgive me, I don't want to ask any more questions after this—if you had a magic wand, given that in a couple of years' time you are going to put it up by 35%, what would you put it up by now?

Philip Rutnam: In fact, we have now found ways to increase it over the baseline level—we have found money this year to put into local authority maintenance, so funding has been on the increase. With respect, Amyas, I thought you were going to ask me whether I knew what the right number was.

Amyas Morse: You can answer that as well, if you want to.

Philip Rutnam: We don't know. It goes back to one of the comments I made at the very outset.

Amyas Morse: I didn't ask because it would have been an unreasonable question.

Philip Rutnam: Okay. I think that, in relation to local roads, there is a big issue of raising the quality of the evidence base.

Amyas Morse: I agree.

Philip Rutnam: That is really a key part of where we need to go over the next few years.

Q50 Jackie Doyle-Price: I want to ask you, Mr Dalton, about collaboration. Paragraph 1.31 of the Report says that local authorities feel better at collaborating with each other than with you. I must say that that is not my experience; I find local authorities the weakest link in all this. I would like to illustrate that with an example that the Chair will also have an interest in: the A13. There, you have the interests of Transport for London, the Highways Agency, and Thurrock council, which seemed not to realise it was responsible for that bit of road until this year, and then it goes to Essex. You have there a number of agencies, some of which are better at collaborating than others. From your perspective, where are the weakest links? Is there consistency on that across the board, or is it very much a function of local relationships?

Graham Dalton: I think you hit on it at the end of your question. An awful lot of it is about local relationships. One of the reasons I operate a business with six or seven regional centres and a regional director in each is that I have someone reasonably senior who can build those relationships. Nevertheless, even dividing 150-odd local authorities by six or seven is still quite a lot each. It does come up against, partly, those who are actually interested and engaged.

In the case of Thurrock, I recall being called by the chief executive of Thurrock three or four years ago; he wanted to advise me that he was not entirely happy with the level of littering on the network. He was absolutely right, and we got our act together and, I hope, sorted it out. That is an example where you have a road that is going from TfL to us and into a local authority. It is a strategic road that goes down to Tilbury port. The collaboration between ourselves and Transport for London is reasonably good, especially on an operational level, because it is about traffic management. For that sort of route, we work to pretty similar, or the same, standards.

With local authorities, an awful lot of it does come down to local relationships. I do not have a policy of going out and making them talk to us, unless there is something we particularly need to fix, but we welcome the opportunity for dialogue, particularly with the regional teams.

Q51 Jackie Doyle-Price: On that, do you think it is easier with the LEPs playing a role? Do you think that that will bring more focus? If we look at the A13, particularly from where your responsibility ends and it goes to the local authorities, there has obviously been massive investment by Essex county council further east, but despite the fact that there has been massive job creation and investment, the window that is the responsibility of Thurrock has remained dual carriageway, and the widening, which is absolutely necessary, has not happened. However, since the LEP has come on stream there has been a more strategic look at things, and we have finally got it on to the agenda, which, frankly, should have happened 10 years ago. Is that sort of more strategic discussion happening more regularly now?

Graham Dalton: From a maintenance point of view, it is about local authorities, but the LEPs come in on the strategic and longer-term planning of the routes, and on how reliable they are. It would be fair to say that I have been pleasantly surprised at how mature some of the relationships have been. Through the first phase of our route-based strategies, we have had some very good links with LEPs on the whole. They have also been realistic about some of the things that they have been putting forward. There was always the risk that they would want everything and we would not have a sensible conversation, so I have found it pretty good as a strategic approach.

Q52 Jackie Doyle-Price: Somewhere like Thurrock is where these difficulties probably emerge more than ever, because we are right on the border with London, which has its own

structures, and logistics is so important to us that the maintenance of the road network is crucial to our competitiveness. On the issue of the A13, it was quite clear to me that the local authority did not understand where your responsibility ended and theirs started. Is that replicated elsewhere in the country?

Graham Dalton: I would like to think not, and I am a little bit disappointed that was the case in Thurrock. They are responsible for picking bits of litter down there in some areas, but that is about it. The A13, the right hook down to the port, the port gates and the roundabout—we are pretty clear. I emphasise one point, though: we talk about maintenance, but some of this is about operations. A fair bit of my revenue budget is about incident clearance and traffic management and operation. In your area particularly, if stuff goes wrong at junction 13 on the crossing, it is about my response units and the approach to that. That is one area where we have been making quite a big saving: getting and maintaining the performance in incident response, but doing it with a lot less money. It is operation that is important. That is perhaps the difference between us and a local authority. Local authorities tend to maintain a road for open access; we operate.

Q53 Jackie Doyle-Price: So it is more acute for you to deal with potential maintenance problems?

Graham Dalton: A maintenance problem or if, as we have happening all the time, something smashes into something else, or a truck or car hits a central reservation barrier, crash barrier or lamp standard; it is that revenue budget that goes to sort it out, and it is having the response units to sort it out in a timely manner. We need to do that to keep it performing in the region.

Q54 Mrs McGuire: This is slightly to the side of the main Report. Although I am a Scottish MP, I do use roads in other parts of the United Kingdom.

Graham Dalton: I was using Scottish ones last week.

Q55 Mrs McGuire: I hope to continue doing so for a long time to come—she says, never missing an opportunity. We have talked about collaboration and, while we still have a Great Britain, Network Rail for example has learnt how to co-operate on a cross-border basis without undermining the integrity of the devolved Administrations to manage, in the case of Scotland, their own railways. In response to a question from Nick, you said that your responsibility stopped at the site of the Severn bridges, but in terms of managing the whole network, do you have links with the road authorities in other parts of Great Britain? I use “Great Britain” rather than “UK”, because the UK of course includes Northern Ireland.

Graham Dalton: Absolutely, including Northern Ireland. I am in reasonably regular contact personally with David Middleton at Transport Scotland. The remit for Transport Scotland is slightly different, but we have two key points of interface—common standards. In some of our operation things, we have quite a bit of dialogue. In fact, we represent each other as well. I do the European bit and represent their interests. The World Road Association, which is actually quite an important industry body, and Roy Brannan at Transport Scotland represent all of us. We have quite a good, strong dialogue. We also get together as chief executives at least once a year to compare notes, standards and common issues. That is the four nations: Northern Ireland, Wales, Scotland and England.

Q56 Mrs McGuire: So there are effectively common standards across the four nations?

Graham Dalton: Yes, pretty much. They are not prescribed as such, but they are in effect. There are differences; some of the signage varies a bit. You will notice that the last big electronic sign on the M6 as you go north tends to have some different forms of language on it, because that is controlled from the—

Q57 Mrs McGuire: “Fàilte gu Alba.”

Graham Dalton: That is controlled from Glasgow, but there is a lot of collaboration. We are trying to do a very similar job.

Q58 Austin Mitchell: My knowledge of highways comes from the brief period of my remorseless rise when I was official shadow spokesman on the cones hotline, so this is not a well-informed question. How does our expenditure on maintenance compare with, say, France and Germany? Do we spend more or less than comparable countries?

Graham Dalton: It is difficult to make direct comparisons. You can use the example of France where, of course, the autoroute motorway network is operated by concession companies who will protect their data very carefully, because it is commercially sensitive to them among their competitors.

On the whole, our cost of maintenance is on a par with that of other countries with very busy networks. We collaborate a lot with the Dutch, because they have a network a bit like ours that is extensively used. To a lesser extent—but still—we collaborate with the Germans, Swiss and Austrians, who have heavily and intensively used networks.

Q59 Austin Mitchell: When the local authorities complain that age is taken as a proxy for condition, does that also apply to your motorways? We did build them using various kinds of surfaces in the '70s to test them out. There is a big stretch just outside Grimsby where concrete was used. Before it was tarmacked, there used to be a sign that said, “Experimental road surface.” Do those road surfaces last longer or are they less sustainable?

Graham Dalton: We do not just look at the life of the surface; we look at the whole-life cost, so it might be cheaper to go in and maintain a series of times, even if it costs you money each time. Overall, concrete is very durable, but it is noisy and it can lose texture, so you get a skid resistance problem.

Chair: Ian has a question relating to that.

Q60 Ian Swales: Yes. Paragraph 2.14 specifically talks about the move from hot rolled asphalt with a life expectancy of 25 years to thin surface systems with a life of 10 to 15 years. That relates to figure 15 over the page, which shows a massive increase in demand for resurfacing. You just gave us a little bit of comfort there about whole-life costs, but the Report at paragraph 2.15 says: “The Agency does not yet understand sufficiently what affects the cost and time of

maintenance work for optimal planning”, which is a bit less comforting. Can you convince us that you have got a good business case relating surface used to the future maintenance costs?

Graham Dalton: I think there are two slightly different points there. If we take the different type of surfacing, a clear technical engineering decision was taken about 12 years ago—I wasn’t around at the time—which recognised that modern thin surfacing was going to have a shorter life; but it is, as its name implies, thin surfacing. One of the big changes in impact is we can go in overnight and replace 200, 300, 400 or 500 metres of a lane, and have it finished and open for traffic in the morning. Indeed, I entertained Mr Rutnam on a night out in the west midlands only a month ago by taking him to see some black stuff being laid. That is quite a big-scale operation—in, done and out. With old, hot-rolled asphalt you cannot do that, so the impact on traffic and service is far greater. That is one of the reasons. It is quieter, and it is lower on energy, so it is environmentally better, so there are advantages, but it has a shorter life.

Q61 Ian Swales: What about straightforward finance? Contractors have got a lot more work, as figure 15 shows. Overall, just testing this and forgetting the traffic for a moment, what about the cost and the business case?

Graham Dalton: That is where 2.15 goes, which is: have we really understood the cost drivers? Having decided to do an operation—take it as a given that we will do resurfacing—do we really have our hands around the variables? I think the NAO quite reasonably say that we are not convincing.

Part of our integrated asset management system—getting into the data capture and cost capture—is bringing into us knowledge of not just the asset, but every time an intervention is done, however minor it might be—down to every time a single gully is cleaned—the unit cost of doing it. That will build up the fixed costs, the one-off costs and the variables.

Q62 Ian Swales: So that is work in progress.

Graham Dalton: That is getting that data. We have learned a lot over the last five years, but there is an awful lot more to do.

Q63 Chair: Mr Rutnam, very quickly, I have two questions. One is about public satisfaction, which according to the Report is at its lowest level since we started doing surveys: 30%. People think it is worse; are they wrong?

Philip Rutnam: That is public satisfaction with, I think, the Highways Agency network.

Q64 Chair: It is on page 26, paragraph 1.35. I do not know whether it is the Highways Agency, or whether you are measuring it broader.

Philip Rutnam: There was a lot of concern about the quality of local roads; I completely accept and understand that.

Q65 Chair: Worst ever.

Philip Rutnam: I have to say that I am not familiar with that particular survey. I am not disputing that there is a lot of concern about the condition of local roads, though not evenly spread across the country. I referred to our own road condition survey information earlier, which is about the condition of local roads as reported by local authorities. The greatest problems are in London and the south-east. There is a lot of concern, and I understand that. The Government have been trying hard to respond to that. We have talked about many aspects of that this afternoon.

Q66 Chair: The very final point is that Stewart talked about the importance of revenue funding. It costs, according to the Report, £52 to fix a pothole, except in London, where it costs £62. You have a growing demand on compensation claims. It is not as bad as the figure we looked at on medical negligence, but even if you took the figure in the Report of £28 million, that would give you half a million potholes filled. It is a sort of common sense: shove the money in and you stop the problem arising, rather than compensating Austin's wife and others when a problem occurs.

Philip Rutnam: Let me put it this way. We well understand the importance of revenue funding for what the Highways Agency does. We are in a position directly to influence that, and that is obviously subject to continued discussion, as we set budgets for the HA from the total funding available for DfT.

We can make a big impact on local authorities through the capital funding we provide them with, and through working with them in the sorts of ways we were talking about earlier: collaboration, alliancing, and driving a changed approach to the procurement and commissioning of services. We do not provide revenue funding directly to local authorities. That is a matter for the CLG financing settlement for local authorities in the round; and a matter, of course, for local authorities and their taxpayers.