



Economic Prosperity, Environment and Highways Board
9 June 2016

Revised Asset Management Strategy for Highways and Transport

Purpose of the report: Policy Development and Review

We have revised the Asset Management Strategy (**ANNEX 1**) for the service in accordance with best practice and are asking that the Economic Prosperity, Environment and Highways Board endorse the strategy and commend to Cabinet for approval.

Introduction:

1. Surrey was one of the first authorities to develop an Asset Management Plan in 2005 (STAMP). The strategy was refreshed in 2014 and now must be revised again so that it is in line with best practice.
2. The Department of Transport (DfT) have introduced changes to the way they fund local highway authorities (the 'Incentive Element'), which means that those who are not applying sound asset management principles will receive a 15.5% reduction in highway maintenance funding by 2021. In terms of the funding Surrey receives, this would mean a reduction in funding of £4.3 million over this period if we cannot demonstrate we are applying an effective approach.
3. This strategy is designed to support the delivery of the Highways and Transport 5-year Strategic Business Plan 2016-21 (**ANNEX 2**) which sets out how the service will contribute to the Council's corporate priorities.
4. Operation Horizon is forecast to reduce the length of Surrey's road network that is in need of structural repair from 17% in 2013 to 12% in 2018. As a result of the success of this programme, our depreciation modelling indicates that over the next 15 years we should rebalance levels of investment between roads and other assets to achieve the greatest overall benefits for Surrey in the long-term.

Asset Management Strategy

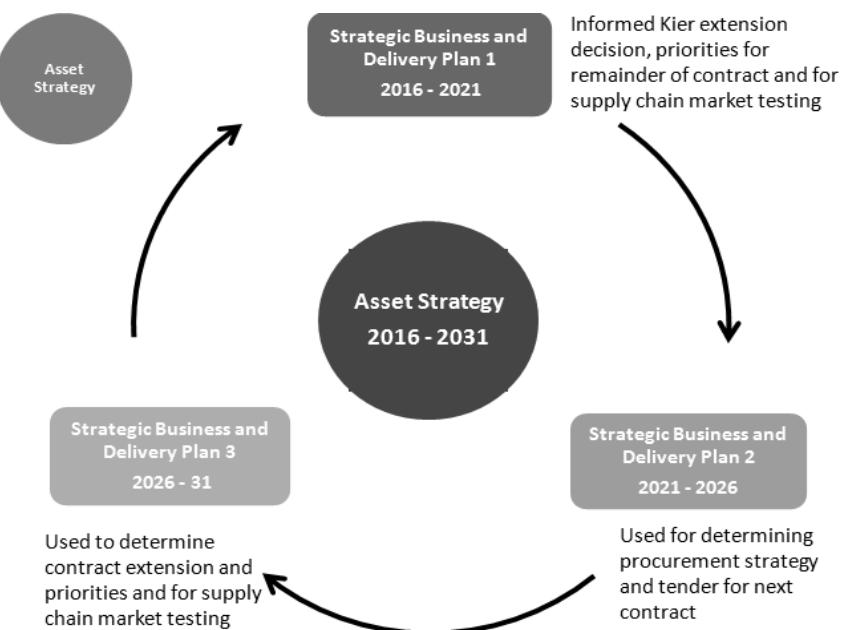
5. Asset management has been widely accepted by central government as a means to deliver a more efficient and effective approach to the management of highway infrastructure assets, through longer term planning, ensuring standards are defined and achievable for available budgets.
6. The Department of Transport (DfT) have introduced the Incentive Element to the Maintenance Block Grant. Highway Authorities will be ranked as Band 1, Band 2 or Band 3, with Band 1 being those judged to be the worst performing. Band 1 authorities will receive a 15.5% reduction in highway maintenance funding by 2021. In terms of the funding Surrey receives this would mean a

reduction in funding of nearly £8 million over this period if we are rated as Band 1 and £4.3 million as Band 2. Surrey is currently rated as Band 2, and we are aiming to be Band 3 by 2017. If we remain at Band 2 we would lose £24 million in funding over the 15 year life of the strategy if the DfT continues with this approach.

7. Surrey was one of the first authorities to develop an Asset Management Plan in 2005 (STAMP). We used sound asset management principles in the development of the innovative Horizon programme which began in 2012. This programme was designed to reduce the length of the network in need of structural repair from 17 % to 12% over 5 years by resurfacing around 10% of the worst condition roads.
8. At the time that Horizon was conceived annual programmes of work were the norm in the highways industry. Surrey recognised the benefits that a long term programme of works, focused on the right things would bring. For example, contractors would be able to give discounts due to long term continuity of works and specialist programmes of work such as those on concrete roads could be developed.
9. Horizon is on track to achieve all its critical success factors, and we are now able to consider a different investment strategy based on the same successful procurement principles.

New approach to our investment strategy

10. The revised asset management strategy is designed to support the delivery of the service's 5-year Strategic Business Plan 2016-21. The business plan sets out how our activities align to the council's corporate priorities and ensures that these drive what we do. At a high level, it sets out what the service is going to do, how we are going to do it and the way in which we will measure our performance. The business plan will be reviewed annually in line with the corporate budget setting timetable and will be reissued every 5 years in alignment with our procurement cycle and this strategy is intended to determine the programmes of work we will need to procure:



11. Contained in the strategy our investment plans for our assets for the next 15 years. It has been developed by:

- undertaking depreciation modelling of all our assets over this period. We have assessed the current condition of our assets and used the best practice Highways Maintenance Efficiency Programme (HMEP) lifecycle toolkit to predict how this is expected to change over the short, medium and longer term.
- assessing the impact of different states of condition of our highway assets on the councils key priorities. This started with assessing the needs of our users and the levels of service required from our assets to meet these needs and then aligning them with the council's corporate goals.
- consultation with members to determine their priorities using a consultation tool called 'YouChoose'. This was used to gather Members views on the prioritisation of funding allocations across the different asset types. The tool sets out the current spending allocation across each asset and forecasts the impact this level of spending will have on the asset's condition in future. Users were then given the opportunity to reallocate funding elsewhere, based on the needs of their constituents and the local area. The impact of their changes was shown in the tool, helping Members to understand how different funding levels can impact on the overall condition of the highways network. The results from this consultation showed that in the view of Members, footways were the main asset type requiring additional spend with drainage the second priority.

12. This has lead to a recommendation of a rebalancing of investment, with a reduction in spend on roads, and an increase in spend on pavements, structures, traffic signals and drainage. This will provide the best outcomes for Surrey over the 15-year period.

13. The intention is to deliver the strategy through 5 year capital programmes of work using the successful procurement approach established by Operation Horizon starting in 2017. The strategy itself will be reviewed annually and refreshed every 5 years as we recognise that things can change over time. This will align with the business plan and procurement cycle described in 10.

14. The approach we are taking is designed to ensure that Surrey is able to maximise the level of grant funding we receive from DfT.

15. The proposed capital budget allocations for 2017/18 onwards are shown in the table below. The proposed capital budget allocations for 2017/18 onwards are shown in the table below. On 22 March 2016 Cabinet agreed to increase highway maintenance spend in 2016/17 by £5m and to make an offsetting reduction to 2017/18, which results in the budget below. In addition, future spend is expected to be supplemented by an allocation from the DfT's "pothole action fund". For 2016/17 this allocation is £1m. In future years we understand from the DfT that funding will be awarded through a competition, rather than formula based, therefore we do not know how much funding we are likely to receive.

Asset Type	*Pre-17/18 (current) MTFP annual allocations (£m)	Allocation of 17/18 budget based on current split per asset (£m)	2017/18 Proposed (rebalanced) budget allocations (£m)**	* 2018/19 onwards proposed (rebalanced) budget allocations*** (£m)	Total 15 year budget (£m)***	Total spend increase / decrease (%)	Impact to asset
A/B Roads	6.51	4.92	3.21	4.67	69	29% Decrease	Although spending is decreased, overall condition will generally improve – reinforced by recent Operation Horizon investment.
C/D Roads	13.00	9.99	6.65	9.69	142	26% Decrease	Although spending is decreased, overall condition will generally improve – reinforced by recent Operation Horizon investment.
Pavements	1.50	1.60	3.00	3.00	45	100% Increase	Slight decrease in asset condition, although relatively stable due to increased investment. Has been identified as a key priority.
Drainage	0.78	0.78	1.60	1.60	24	105% increase	Asset condition will remain fairly stable based on what is known. Further work required to discover more of the network. Any change in investment is difficult to justify due to the need to treat wet spots.
Structures	1.96	1.96	3.00	3.00	45	53% Increase	A significant increase will slow down asset deterioration. Whilst this will not address all issues it will begin to move the condition of structures towards a more stable base which is easier to manage at a strategic level.
Safety Barriers	0.26	0.26	1.10	1.10	17	323% Increase	Good overall improvement to the asset, allowing increased focus on safety critical barriers.
Traffic Signals	0.55	0.55	1.20	1.20	18	118% Increase	A significant increase will stabilise condition over the next 15 years.
Embankments	0.00	0.00	0.30	0.30	5	N/A	Evidence indicates that proposed spending is broadly appropriate but we will continue to improve our data
TOTAL	24.56	20.06	20.06	24.56	364		
		* rebalancing of spend on assets can be shown by comparing spend in these columns ** £5 million was moved from the 2017/18 highways maintenance budget into 2016/17 therefore the 2017/18 budget is reduced by £5 million ***excludes inflation beyond MTFP					

Financial implications and assumptions

16. The strategy aims to ensure the most cost effective use of available resources through the identification and completion of programmes of work based on sound asset management principles.
17. The investment strategy proposed is based on our current budget. This will not be sufficient to prevent deterioration of all our assets. Investment has been targeted to minimise revenue pressures caused by the need to keep the network safe as further deterioration occurs. It also assumes that funding continues by the DfT on broadly the same lines and there is no reduction in the allocation we receive, including our achieving a Band 3 rating in 17/18 and maintaining this.
18. Investment has also been targeted to minimise revenue pressures caused by the need to keep the network safe and we do not expect the revenue requirement to increase as a result of this strategy.
19. In the modelling we have assumed that funding will continue to be available for more significant works, such as the Local Growth Fund resilience funding and the Challenge Fund. Therefore no allowance has been made for significant single projects requiring large investment.
20. The modelling assumes normal deterioration patterns, and no allowance has been made for any significant damage caused by severe weather events so in the event that central government and/or the council are not able to provide additional funds the programmes of work described in this plan will be suspended to deal with any unforeseen damage to the network caused by a severe weather event.
21. Failing to adopt the strategy would mean we are not able to meet the requirements set out by the DfT to receive a full allocation of capital funding.

Recommendations:

That the Economic Prosperity, Environment and Highways Board endorse:

- a. the Asset Management Strategy
- b. the revised allocation of capital budgets from 2017 onwards
- c. that minor future amendments to the strategy can be made by the Strategic Director of Environment and Infrastructure in consultation with the Cabinet Member for Highways, Transport and Flooding Recovery.

and commend to Cabinet for approval.

Next steps:

1. Subject to Cabinet approval we will re-profile the spend across the asset types in accordance with the recommendations set out in the strategy and develop 5 year programmes of work. There will be a supply chain procurement exercise in the Summer so that we are ready to start to deliver these programmes in 2017.
2. Engagement with Local Committees will continue during this process regarding the programmes, particularly focussed on pavements, carriageways structures and drainage.

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Sources/background papers:

- HMEP Transport Infrastructure Asset Management Guidance
- National Code of Practice for “Well Maintained Highways”
- National Code of Practice for “Well Maintained Structures”
- National Code of Practice for “Provision of Vehicle Restraint Systems for Local Authorities”
- Benchmarking with other Highway Authorities
- Asset valuation and deterioration data produced for HM Treasury Whole of Government Accounts