

**REVIEW OF HIGHWAY MAINTENANCE PRUDENTIAL BORROWING
INVESTMENT PROFILING**

To: Highway and Community Infrastructure Committee

Meeting Date: 19 August 2014

From: Executive Director - Economy, Transport and Environment Services

Electoral division(s): All

Forward Plan ref: 2014/002 *Key decision:* Yes

Purpose: The purpose of this report is to seek approval for re-profiling the remaining Prudential Borrowing investment for Highway Capital Maintenance in order to deliver the best outcomes in the delivery of the Council's Highway Asset Management Strategy.

Recommendation: It is recommended that the Committee:

1) agrees to the principles of extending the Prudential borrowing period for Highway Capital Maintenance as set out in this report.

2) approves the carry forward of £3.966 million of prudential borrowing from 2014-15 to future years, to fund future capital expenditure in line with the revised phasing detailed within this report.

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1. BACKGROUND

- 1.1 In 2012, the County Council approved the allocation of £90m of prudential borrowing to invest in highway maintenance over 5 years from 2012/13. This funding was additional to the capital maintenance allocated by Government through the Local Transport Plan (LTP). The indicative spend profile was as follows: 2012/13 - £15m, 2013/14 - £15m, 2014/15 - £15m, 2015/16- £20m, 2016/17 - £25m, dependent on deliverability of schemes and capacity in the industry.
- 1.2 As at March 2014, £24.175m of additional work had been delivered through this additional investment, i.e. 81% of the indicative allocation for the first two years. The additional funds have been allocated to a mix of carriageway maintenance, bridges, traffic signals and footway schemes. The allocated budget for capital maintenance for 2014/15 is £30.373m, comprising £9.548m from the LTP and £20.825 prudential borrowing. The expected spend of prudential borrowing funding for the current year is £16.859m. Therefore, it is forecast that approximately £3.966m of the agreed prudential borrowing will remain unspent at the end of the current financial year and therefore could be rolled forward to next year.
- 1.3 As the Committee will be aware, the Council is reviewing the level of borrowing with a view to reducing capital financing costs. In 2014-15 the Council is expected to spend £34.1m on financing debt, and current plans would increase this to £44.8m by 2018-19.
- 1.4 The Council's Capital Strategy is being revised as part of the 2015-16 Business Planning Process and one proposal is to consider a limit on the annual level of capital financing costs.

2. MAIN ISSUES

- 2.1 A review of Highway maintenance investment requirements was carried out earlier this year as part of work to develop the Council's Highway Asset Management Strategy, which was approved in March 2014.
- 2.2 This review considered various levels of annual investment and the blend of treatment types that would deliver the best long term outcomes for improving the condition of Cambridgeshire's highway network. Members were directly involved in this work with a member of each political group taking part in an options development workshop in December 2013.
- 2.3 The review highlighted several key issues.
 - Current LTP Capital Maintenance Funding (without prudential borrowing) is insufficient to maintain the road network in its current condition (currently £5.7m per annum is spent on carriageways)
 - Spending at the current prudential borrowing investment profile, would lead to a relatively rapid improvement in condition over that period, but would be followed by a rapid deterioration thereafter - assuming additional funding is no longer available.

- The additional funding should in the future be prioritised towards dealing with carriageway (road) maintenance, as this is the area of greatest need and maximum potential in securing long-term asset protection.
 - By delivering an enhanced preventative maintenance programme (by increasing the use of surfacing dressing and other specialist surface treatments) a gradual but sustainable improvement in carriageway condition could be delivered. An annual Capital Maintenance budget of around £11.7m (LTP plus prudential investment) would be required to achieve this.
 - The optimum spend profile that was derived from the review work is to extend the borrowing period for the remaining 2 year period for a further 8 years from 2015/16.
- 2.4 This year government (DfT) have recognised the effects of the wettest winter on record and the Council has secured an additional £3.5M through the severe weather recovery fund and the pothole fund. This funding is being applied in accordance with the Asset Management Strategy to ensure funds are targeted for longer term benefit. The additional funding is welcome and will complement our prudential borrowing, but does not change our overall proposals.
- 2.5 A key consideration was the need to manage effectively public expectations of network condition and avoid falsely raising expectations through rapid and unsustainable improvement, by delivering gradual improvement over time.
- 2.6 Whilst the key driver for extending the borrowing is the impact this will have on the long term condition of the County's roads, there are supplementary benefits.
- Interest Repayments - Whilst extending the prudential borrowing term does not reduce the overall cost of interest paid, it does provide revenue budget relief in the short term due to the delayed drawing down of prudential funds and the impact this has on repayments. This could deliver immediate savings of around £7.8m between years 2 to 5 of the current business plan.
 - Deliverability - Provides a more even distribution of work over time, to reduce the impact of road works on the road network and making the best use of available resources to the benefit of delivery teams and their supply chains.
- 2.7 Extending the borrowing term does not involve borrowing any more money, just extending the remaining amount over a longer period than was previously modelled.
- 2.8 The impact that this investment has on the condition of the county's road network will be monitored and reported on an annual basis. This will allow flexibility as to how the remaining investment is allocated and provide the opportunity for the Committee to keep the total spend allocation for highway maintenance under review.
- 2.9 The Capital Maintenance schemes and the annual level of investment

required to deliver them, will be set out through the annual update of the Transport Delivery Plan. The next Plan, covering a three year programme period, will be published in early 2015.

3. ALIGNMENT WITH CORPORATE PRIORITIES

3.1 Developing the local economy for the benefit of all

Adopting an effective long term approach to investment will ensure that highway infrastructure assets support the delivery of services and the local economy, taking into account the long term performance of the asset. It will support initiatives to deliver the optimum infrastructure for new and existing communities within available resources.

3.2 Helping people live healthy and independent lives

Optimising investment levels delivered through the Highway Asset Management Strategy will support the development of an effective transport system. This will help improve quality of life, by meeting the needs of the individual, whilst remaining responsive to the changing needs of businesses and the local economy. This approach will ensure that the condition and performance of highway assets is enhanced and continuously monitored in order to help optimise planned maintenance programmes.

3.3 Supporting and protecting vulnerable people

An effectively maintained local road network will ensure that those people in most need of access to local services have the best ease of movement, whilst also facilitating the support to vulnerable people within their own communities.

4. SIGNIFICANT IMPLICATIONS

4.1 Resource Implications

This additional investment supports Local Transport Plan funding allocations, and funding from other grants / third party funding streams. There are no further funding implications.

Road condition is a major factor for the public and businesses. Appropriate levels of planned long term investment in Capital Maintenance programmes will continue to deliver an improved road network to support economic growth.

4.2 Statutory, Risk and Legal Implications

This proposal supports the County Council's role as the Highway Authority for Cambridgeshire in meeting its statutory duty for maintenance, under the Highways Act 1980.

4.3 Equality and Diversity Implications

There are no significant implications under this heading.

4.4 Engagement and Consultation Implications

There has been engagement with members through the process of developing the Asset Management Strategy through workshops and discussions at Overview and Scrutiny and Group planning meetings.

4.5 Localism and Local Member Involvement

There are no specific localism or local member involvement issues associated with this proposal.

4.6 Public Health Implications

This investment covers the maintenance of existing highway assets. As such any changes put in place that adjust maintenance budget disaggregation across the county, will not impact on the County Councils commitment to deliver new infrastructure to appropriate areas where it will help people lead healthier lives. Optimum investment in highway maintenance will support the delivery of health services.