

PROVIDING AND FUNDING STRATEGIC ROADS: A POST AUTUMN STATEMENT UPDATE

Since publication of the final report in November, there have been three main developments affecting the roads programme and the framework for governance of the strategic network. These are:

- The Autumn Statement by the Chancellor and announcement that the Government will invest over £1bn to tackle areas of congestion and improve the national road network;
- The subsequent statement by the Secretary of State for Transport of funding for a further 21 local authority major transport schemes; and
- Publication of the report by Alan Cook into governance of the Highways Agency with a series of recommendations for improving the management of the strategic road network.

The implications of each of these are described in turn below.

The Autumn Statement

The Chancellor's Autumn Statement contained commitments to bring forward 6 **Highways Agency** schemes which were identified in the list of unfunded projects contained in our report. These are set out below with the corresponding project costs that formed part of this Statement.

Prior to the 2010 general election these schemes were put on hold pending the outcome of the Spending Review. The Secretary of State's statement in October 2010 confirmed 5 of the 6 schemes as 'future schemes' for potential delivery post 2015 and the 6th scheme for review after 2015. The Highways Agency website has now been updated to reflect the Autumn Statement and confirms the Agency's major project delivery programme. <http://www.highways.gov.uk/roads/29356.aspx>
<http://www.highways.gov.uk/roads/30804.aspx>

	Scheme	Project Cost £m ¹ (excluding historic costs)	Project No.	BCR ²
1	A14 Kettering bypass	110	5	unknown
2	A45/A46 Tollbar End Improvement	160	19	3
3	A453 widening	150	20	7.8
4	M3 J2 - J4a Managed Motorway	120	53	unknown
5	M6 J10a - J13 Managed Motorway	150	56	unknown
6	M1 Junction 19 Improvements	150	43	2.9
	Total estimated cost	800		

¹ Note: These are costs obtained from the Autumn Statement 2011. These differ in some cases from the last ministerially approved project estimates published on the Highways Agency website as at December 2010. In addition, the Government announced in the National Infrastructure Plan 2011, a new specification for managed motorways which will reduce the costs of implementation by up to a quarter [section 3.43].

² These are the original BCR figures sourced for the Arup/RAC Foundation report [Providing and Funding Strategic Roads](#). According to the Highways Agency these figures are now under review and new BCRs 'will be confirmed with ministers'.

In addition, a number of other schemes are being taken forward. These include:

- Immediate investment on junction improvements on the A14, while a review is undertaken into capacity enhancement along the Ellington-Fen Ditton section, with a commitment to explore innovative ways of financing the scheme, including tolling.
- Improving access to Manchester airport through a new dual carriageway to be constructed linking the M56 to the A6 (cost unknown).

A study is already underway on a new Dartford /Lower Thames crossing.

The Government also announced funding for **20 local authority major transport projects** with a further round of projects to be announced later in December. The road schemes announced with the National Infrastructure Plan 2011³ were as follows:

		Project Cost £m	BCR	Project No
1.	A6182 White Rose Way Improvement-Doncaster	28	2.9	69
2.	Crewe Green Link –Southern Section	30	4	70
3.	A18-A180 Link (NE Lincs)	8	9.7	72
4.	A43 Corby Link Road	45	2.4	76
5.	A164 Humber Bridge to Beverley	13	3.4	83
6.	Northern Road Bridge (Portsmouth)	21	Unknown	84
7.	Kingkerswell by-pass (Devon)	110	8.0	85
8.	South Bristol Link-Phases 1&2	47	Unknown	86
9.	Lincoln Eastern bypass	130	5.1	89
10.	Evesham Bridge Maintenance	14	6.4	93
11,	A45 Westbound Bridge (Solihull)	13	7	94
	Estimated Total Cost:	459		

In addition, there are a small number of local authority major road schemes to be funded which were not included in Table 1 of our report. They include Hucknall Town Centre Improvement Scheme – with a new inner relief road - and the new Tipner Interchange on the M275 in Portsmouth.

The net effect of these announcements is to reduce the number of **unfunded Highways Agency schemes** from the 61 set out in our report to 53 – if we accept that there is now a Government commitment to secure capacity enhancement of the A14 (Ellington to Fen Ditton, by far the most costly unfunded scheme in the list).

If we include the **local authority major schemes** included in the Autumn Statement, the total number of unfunded road schemes is reduced by a further 11, bringing the total number of unfunded schemes in England set out in table 1 of our report, down from 96 to 77.

As would be expected, many of the schemes which are now to proceed have strong business cases – particularly so with some of the local authority major schemes. 5 of the schemes given the go-ahead feature in the top 10 list of unfunded projects, measured in terms of benefit cost ratio (bcr). They include the A453 widening in Nottingham and 4 local authority major roads – including the **Kingskerwell bypass** in Devon and the **A18-A180 link** (Lincs), both of which produce more than £8 of benefits for every £1 of expenditure.

The Chancellor’s Statement indicated that, overall, the Government would invest over £1bn ‘to tackle areas of congestion and improve the national road network’, £900m of which would be in the 2010 spending review period. This investment will be for the strategic road network with £270m allocated for two main managed motorway schemes on the M3 and M6.

³ National Infrastructure Plan 2011: Infrastructure UK (November 2011)

By contrast, the local authority major projects appear to be funded out of existing provision in the 2010 spending review, with project funding allocated following a bidding process by local authorities.

There remain issues to be clarified concerning the timing of the additional investment schemes which have been announced – and, in particular, the implications for the Highway Agency’s investment budget in the period up to 2014/15. How far will the annual rate of capital spending be increased over the next 3 years or will the existing investment planning horizon be extended beyond 2014/15 to accommodate some of the additional schemes?

The December Funding Announcement by the Transport Secretary

In addition to the 20 local authority major schemes for which funding was confirmed in the Autumn Statement, the Secretary of State announced funding for a further 21 schemes in her statement of December 14. These comprised a mix of road and rail schemes and had been part of the **Development Pool** for which local authorities were invited to submit revised funding bids in September.

Of the 21 schemes, 12 were road schemes included in the list of unfunded projects contained in the Arup/RAC Foundation Report *‘Providing and Funding Strategic Roads’*. The total estimated cost of these schemes identified in the report was £562m. The cost of these 12 schemes following the bidding process from local authorities is now estimated at £464m – indicating the extent of economies that have been secured in winning these bids. Details of the 12 schemes are given below:

		Approved Project Cost	DfT Funding	Project No.
1.	A684 Bedale Bypass	42.1	35.9	64
2.	Norwich N.Distributor Road	111.1	86.5	65
3.	Nottingham Ring Road	16.2	12.8	67
4.	Weston Super Mare Package	5.0	10.4	68
5.	Sunderland Strategic Corridor	117.6	82.6	71
6.	Luton Town Centre Transport Scheme	23.9	15.9	78
7.	Darlaston Development Area	25.9	14.3	80
8.	Cambourne-Pool-Redruth Package	26.8	16.1	81
9.	Worcester Integrated Transport Package	19.6	14.2	87
10.	Chester Road (B’ham)	10.5	8.3	88
11.	Morpeth Northern Bypass	30.1	21.1	90
12.	Leeds Inner Ring Road	25.0	_*	96
	Totals:	463.8	318.1	

*Final DfT funding contribution dependent upon outcome of local funding agreements between parties concerned.

Overall, DfT funding will meet just over two-thirds of the costs of these schemes with local authorities responsible for meeting the remainder. It remains to be seen how far this leads to innovation in project financing by local authorities.

A number of these further schemes also have high benefit cost returns with up to £5 of benefit for every £1 of cost. Indeed, the Leeds Inner Ring Road scheme featured in the top 10 unfunded projects with a BCR of 10. This and other BCRs will have increased further as a result of the cost savings which have made as a result of the bidding process.

The remaining 9 schemes for which approval has been given were not included in our list of unfunded road projects. They include a number of rapid transit schemes and integrated transport packages. The total cost of all 21 schemes included in the announcement is estimated at £854m with a DfT contribution of up to £586m.

A further 2 schemes - Waverley Link Road (Rotherham) and the Bexhill to Hastings Link Road - included in our Table 1 are to be subject to further review before a decision is made on funding.

The Implications of these announcements for the Funding Gap

The net effect of these developments is to have reduced the total number of unfunded projects identified in Table 1 of our report from 96 to 65. The effect is to have reduced the size of funding gap we identified from £10.8bn to around £8.7bn in respect of those schemes for which costs are available – although we should note that latest cost estimates for a number of schemes are lower than those contained in our report.

The effect is most marked for local authority major schemes where 22 of the 34 schemes identified in our report have now secured funding approval. The effect is less marked for the more costly Highways Agency schemes for the strategic network where the effect of the Autumn Statement has been to reduce the number of unfunded schemes from 61 to 53 (assuming a satisfactory outcome from the A14 studies).

Thus while the announcements by the Chancellor and the Transport Secretary represent significant steps forward, there remains a substantial funding gap – particularly in relation to the strategic road network. We estimate the scale of this funding gap to be of the order of £9bn although estimates will change over time as scheme costs are refined, and cost estimates produced for a number of those schemes for which they have not hitherto been available. The effect of the announcements has been to reduce the number of unfunded schemes by proportionately more than the size of the funding gap, reflecting the preponderance of less costly local authority major schemes.

Alan Cook's Review

The review led by Alan Cook into the process of operating, maintaining and enhancing the strategic road network, and governance arrangements for the Highways Agency, also reported in November, shortly after publication of the joint Arup/RAC Foundation report. A number of his recommendations address problems identified in our report. In particular, we welcome the recommendation for Government to publish, within 6 months, a **long term strategy for motorways and trunk roads**, to be followed by an output-based specification, with a 5 year funding commitment, as is usual for regulated utilities. We also welcome creating a more arm's length relationship between the Agency and Government.

These represent important steps forward which we welcome – and provide a basis for further convergence with the standard regulated utility model in the future – although there remain important issues which will need to be addressed, notably on road financing, charging and demand management, and accountability to road users.

Other Developments

Providing & Funding Strategic Roads also advocated a more supportive framework from Government for local and regional bodies to take forward unfunded projects. In this regard, we note in the Autumn Statement the Government proposes to allow more flexibility for local authorities to support major infrastructure schemes including allowing local authority borrowing against the Community Infrastructure Levy.

Against the background of the disparity we observed between attitude and approaches to PFI/PPP in the UK and that in other countries, we also welcome the fact that Government is about to launch a call for evidence to consider new models for the use of private finance in the delivery of public assets in reforming the Private Finance Initiative.

John Smith

January 3, 2012

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