

From: **Barbara Cooper, Corporate Director – Growth, Environment and Transport**

To: **Matthew Balfour, Cabinet Member for Environment & Transport**

Subject: **Implementing our Approach to Asset Management in Highways**

Key Decision: **Yes**

Decision No: **16/00068(2)**

Summary: The Government has changed its rules for funding local road maintenance to encourage local authorities to fully embed the use of asset management techniques into their management of highway maintenance and their decision making around funding and priorities. This report provides an update on Kent's work to maximise capital grant funding through the Incentive Fund introduced by the Department for Transport.

Recommendation: The Cabinet Member is asked to make a key decision to adopt and publish *Implementing Our Approach to Asset Management in Highways* as shown in Appendix A, in order to evidence a Band 2 rating for Incentive Fund purposes.

1. Introduction

- 1.1. Changes to Department for Transport (DfT) rules for funding highway maintenance of local roads have been introduced through its Incentive Fund. An increasing proportion of capital grant funding is dependent on local authorities being able to evidence that they fully use asset management techniques in highway maintenance. The main aim of the asset management approach being encouraged by DfT is that local authorities clearly link their investment decisions with an understanding of what that means in terms of service level and condition outcomes.
- 1.2. In January 2016, Kent assessed itself as a Band 1 authority for Incentive Fund purposes, the lowest rating. That is not to say that the County Council was poor at asset management, as good asset management practice has been utilised across our highway services to varying degrees for many years. For example, for our largest asset groups we have good systems for assessing their condition and modelling renewal schemes.
- 1.3. Highway asset management is an ever-changing field and we need to further develop our approach in line with latest best practice, such as introducing an understanding of the lifecycle cost of our key highway assets and the effect different investment levels can have on that. If Kent cannot evidence it has fully adopted the use of asset management methodology and in doing so has progressed to Band 3, the highest rating, by January 2018, and remain at that level in the years that follow, we will receive £13m less in capital funding over the next four years.

2. Discussion

- 2.1. On 13 January 2016, the Environment and Transport Cabinet Committee (ETCC) resolved to support the further embedding of asset management principles. A Members' Task and Finish Group (T&FG), involving Members from each political group, was established and met six times during last year. Given that the effect of Incentive Fund assessments on capital allocations is gradual, ETCC and T&FG agreed that our target should be to get to Band 2 by January 2017 for financial year 2017/18 and Band 3 by the January 2018 for 2018/19.
- 2.2. In order to get to Band 2, the County Council needed to do two things: (1) develop and publish an asset management policy and strategy which describes how asset management principles will support our strategic objectives, and (2) introduce and adopt lifecycle planning for road assets only and manage investment in that asset group on that basis.
- 2.3. On 8 July 2016, ETCC approved *Our Approach to Asset Management in Highways*, a two-page document that describes the key principles adopted in applying asset management to achieve the authority's strategic objectives – copy attached for ease of reference. This was subject to Decision 16/00068. Since then, T&FG Members and officers have developed a detailed strategy document *Implementing our Approach to Asset Management in Highways*, a copy of which is attached. Adopting and publishing this document will be sufficient for this authority to evidence a Band 2 Incentive Fund assessment.
- 2.4. Detailed analysis of lifecycle costs of our biggest asset groups, roads and footways, utilising the new Horizons Asset Management tool, has given us some good quality data on the condition of our 8,700km road and 6,300km footway networks. It has enabled the Authority to calculate our current investment backlog more accurately, and model the effect of different capital funding strategies both on backlog and lifecycle cost of maintaining these assets. This information is included in *Implementing Our Approach to Asset Management in Highways*.

3. Getting to Band 3

- 3.1. The financial consequence of not being able to evidence a self-assessment score of Band 3 significantly increases from 2018/19, hence our target to achieve Band 3 by the January 2018 to maximise our capital allocation in 2018/19 and beyond. Achieving Band 3 in that timeframe is achievable but more challenging than the work we have carried out during 2016 to evidence Band 2.
- 3.2. The Incentive Fund self-assessment questionnaire contains 22 questions covering asset management, resilience, customers, operational delivery, benchmarking and efficiency. In order to achieve an overall Band 3 rating, authorities must be able to evidence at least eighteen of these questions at Level 3. At present, Kent can evidence Level 3 for seven questions, mainly in the sections concerning resilience

and customer service, which means that we need to improve at least eleven of the remaining fifteen questions. We have carried out an analysis of the activity needed to carry out this work, and from that have created a detailed project plan. Particular areas of focus during 2017 will include (but will not be limited to):

- introducing lifecycle planning for other major asset groups and managing investment in those groups on that basis;
- developing and implementing an asset management communications strategy;
- developing an asset management performance management framework to support the implementation of asset management;
- developing an asset management competence framework;
- reviewing asset data collection methods and requirements;
- reviewing our resilient network; and
- continuing to develop “Implementing our Approach to Asset Management in Highways”.

4. Financial Implications

- 4.1. There are no financial implications from adopting and publishing the attached strategy document *Implementing our Approach to Asset Management in Highways*, and therefore evidencing that we are a Band 2 authority. It is important to note that neither the strategy document nor the rules of the Incentive Fund compel the authority to make any particular decision in terms of investing in the network. The Incentive Fund mechanism recognises that local authorities have to balance a variety of factors such as asset condition, lifecycle costs, available funding, public expectation, the need to repair potholes and the need to fulfil their duties under the Highways Act. The Incentive Fund changes only seek to encourage local authorities to make funding decisions that are *informed* by an understanding of the outcomes associated with different maintenance strategies and associated funding scenarios.
- 4.2. Officers are confident that the additional cost of the work needed to achieve Band 3 by January 2018 will be limited to buying in some technical asset management expertise to support officers, using our current Technical and Environmental Services Contract. The cost of that support is around £35k in 2016/17 and £55k in 2017/18 to be funded by reducing our investment in our road and footway assets by doing less capital resurfacing schemes. It should be noted, however, that the additional capital funding we will receive in 2018/19 as a result of this expenditure is around £1.4m (assuming we achieve a Band 2 Incentive Fund rating for 2017/18 and a Band 3 rating for 2018/19).
- 4.3. If Kent does not reach Band 2 in this year’s Incentive Fund assessment and then further improve to Band 3 by January 2018, we will lose out on £3.2m of DfT capital funding for 2018/19. Remaining at Band 1 beyond that would also see Kent losing out on £4.1m of capital funding in 2019/2020 and £4.6m in 2020/21.

5. Policy Framework

- 5.1. By further embedding asset management principles into our approach to maintaining highway assets we will be supporting the County Council's Strategic Outcomes outlined in "Increasing Opportunities, Improving Outcomes". This link is clearly demonstrated in "Implementing Our Approach to Asset Management in Highways."

6. Equalities Implications

- 6.1. An initial EqIA screening has been carried out. There were no significant implications to any group as a result of "Implementing Our Approach to Asset Management in Highways".

7. Conclusion

- 7.1. On 12 January 2017, *Implementing Our Approach to Asset Management in Highways* was considered by Cabinet Committee who endorsed a recommendation that the County Council adopt and publish it in order to submit a Band 2 Incentive Fund rating for 2017/18 and avoid our capital maintenance allocation from DfT reducing by £750k compared to this year's.
- 7.2. Notwithstanding that endorsement, a number of Cabinet Committee members did express some concerns about the strategy paper being proposed for adoption and publication. There were concerns that it did not include sufficiently stark data and information that paints a picture of the reality of the situation being experienced by Kent during a time of diminishing resource, deteriorating condition and increasing public expectation. It was generally felt that the rate of investment from central government was insufficient and a number of members asked that the County Council make strong representations on that point to the Government.

8. Recommendation

- 8.1. The Cabinet Member is asked to make a key decision to adopt and publish *Implementing Our Approach to Asset Management in Highways* as shown in Appendix A, in order to evidence a Band 2 rating for Incentive Fund purposes.

9. Appendices and Background Documents

- Appendix A – Record of Decision
- Appendix B – Our Approach to Asset Management in Highways,
- Appendix C - Implementing our Approach to Asset Management in Highways

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