1. Welcome and introductions

By way of introduction Mostaque Ahmed explained the reasons why a review is necessary. It was emphasised the task of the group was not to look at the level of funding available, but how the funding is distributed. The group was tasked with identifying how the formula could be revised, reflecting the key principles identified in the terms of reference, and advising on when any changes should be introduced.

2. Terms of Reference

The Terms of reference were agreed, with minor typographical amendments. Group members also stressed the need for transparency.

3. Outcomes and timescales

Milestones of the project were noted.

4. The current formula

DfT summarised the key components of the current formula and the findings of public consultation exercise undertaken in autumn 2010. It was highlighted that the responses to this consultation contributed to the decision to phase out the road condition weighting.

5. The ideal formula
DfT identified some of the challenges that will be faced in reviewing the formula. This included issues around equity, data availability and robustness, avoiding 'perverse incentives' and balancing excessive simplicity against complexity.

Discussion from the group focussed on the following areas:

- **Data:**
  
  Importance of data consistency was raised. It was felt that there is scope to use an indicator as a proxy for more than one variable. For example, road length is typically a good representation of footway length. The group agreed that the formula should not be made more complex and, ideally, there should be a shift towards greater simplicity.

  It was emphasised that DfT would not want to increase data burdens on local authorities. Data used in a new formula would therefore need to be from existing datasets or data that will be collected in future for other purposes (e.g. Whole of Government Accounts).

  The DCLG Single Data List was referred to and it was questioned as to whether the list remains mandatory for local authorities.

- **Incentivisation:**
  
  It was felt that some form of incentivisation is needed to encourage the best use of resources and good practice amongst local authorities. The view was that the current formula does not do this, although the phasing out of the road condition weighting from was generally welcomed as it removed a perverse incentive.

  It was noted that Bridges element of the formula could represent a perverse incentive and was potentially open to some local manipulation (in terms of timing of works). It was felt there was scope to re-examine this.

- **Potential for an asset value approach:**
  
  There was considerable interest in taking an asset value based approach within the formula to encourage good asset management. There was discussion of the appropriateness of linking funding related to authorities’ Whole of Government Account return, possibly the Annual Depreciation element (i.e. based on identified average annual need) rather than say Depreciated Replacement Cost (which includes an element of condition). It was suggested that basing the formula on this data could form a robust basis for distributing the funding block.

  There was concern, however, that not all authorities currently have the same degree of information on their highways infrastructure assets. It was pointed out, however, that given the Whole of Government Accounts requirements, all authorities will need to be in the position to report DRC of their highways assets by 2012/13.

- **Implementation:**
  
  There was discussion on when any changes should be implemented. DfT highlighted that 2011/12 and 2012/13 maintenance block allocations have been finalised, but that those for 2013/14 and 2014/15 are indicative so could be amended to reflect any changes identified by the Group.

  There was agreement by the group to recommend to ministers that the indicative allocations are confirmed, and that any changes to the formula would take effect from 2015/16. This is
because there would be considerable benefits from funding certainty. It would also align with the timetable for Whole of Government Accounts requirements on local highways authorities and would give local authorities sufficient foresight of how the formula will be calculated in future. This would give a clear message to local authorities that highways asset management needs to be taken seriously.

- Other issues:

It was questioned whether Element A (detrunked roads) should remain as a separate element. It was suggested that this would be covered by Element B (roads).

It was questioned why the current classification of roads (A, B, C and Unclassified) remains to be used as most local authorities assess their highways using maintenance categories. It was felt that this could be a more effective way of categorising roads.

Work on the above issues will be influenced by the wider point about whether we move towards an asset-value approach to funding allocations.

It was suggested that it would be useful to see the 2010 Report by the Yorkshire and Humber Authorities into Highways Maintenance and any useful documentation produced by the 2005 Formula Grant Working Group.

6. Summary of key decisions

It was agreed that the Group should:

- **Recommend that the indicative maintenance block allocations for 2013/14 and 2014/15 are confirmed.**
- **Recommend that work is undertaken to assess the appropriateness and feasibility of moving to a new formula for allocating highways maintenance from 2015/16 based on an asset-value approach.**

Given the Group’s decision to recommend that a new formula be implemented from 2015/16, it was decided it was not necessary to follow the timetable set out in the Terms of Reference but work would instead be guided by initial steers from Ministers and the Whole of Government Accounts timetable.

The timing of further meetings will therefore be subject to confirmation on the feasibility of an asset value-based approach from CIPFA and ministerial approval.

A list of **Actions** is provided overleaf.
<table>
<thead>
<tr>
<th>Ref:</th>
<th>Issue:</th>
<th>Owner:</th>
<th>Date identified:</th>
<th>Target date:</th>
<th>Date completed:</th>
<th>Action:</th>
<th>Status:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Change references from ‘LA TAG’ to ‘TAG’ in Terms of Reference</td>
<td>Steve Berry/ Paul Hersey</td>
<td>27/07/2011</td>
<td>31/08/2011</td>
<td>28/07/2011</td>
<td>Updated.</td>
<td>Closed</td>
</tr>
<tr>
<td>1.2</td>
<td>Publish Terms of Reference, Minutes and relevant supporting documentation on the DfT website</td>
<td>Steve Berry/ Paul Hersey</td>
<td>27/07/2011</td>
<td>31/08/2011</td>
<td></td>
<td></td>
<td>Live</td>
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<tr>
<td>1.3</td>
<td>Investigate whether completion of the DCLG Single Data List is mandatory on local authorities.</td>
<td>Steve Berry/ Paul Hersey</td>
<td>27/07/2011</td>
<td>31/08/2011</td>
<td>28/07/2011</td>
<td>Yes. Mandatory on LAs.</td>
<td>Closed</td>
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<td>1.5</td>
<td>CIPFA Infrastructure Assets PISG Meeting (10/10/11) – DfT to raise issue of asset-value approach with group members.</td>
<td>Mostaque Ahmed/ Steve Berry</td>
<td>27/07/2011</td>
<td>10/10/2011</td>
<td></td>
<td></td>
<td>Live</td>
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<tr>
<td>1.6</td>
<td>Draft a proposal to ministers recommending that indicative allocations are confirmed and that an asset-value approach is taken from 2015/16.</td>
<td>Steve Berry/ Paul Hersey</td>
<td>27/07/2011</td>
<td>31/10/2011</td>
<td></td>
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<td>Live</td>
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