Highways – what’s around the bend?

Ben Mullard of Beale & Company reviews the major changes under way in the key highways market that it is hoped will transform the way highway services are procured. A new collaborative approach to contracts has been welcomed by the industry.

The highways industry is approaching a period of substantial change with a number of significant events on the horizon. The most significant of these is next year’s transformation of the Highways Agency (HA) into a government-owned company and the introduction of a long-term spending and performance programme, broadly bringing the highways industry into line with other regulated industries, such as rail and utilities but without introducing privatisation of the network. We are also waiting to see which consultants and contractors will successfully gain a place on the HA’s new Collaborative Delivery Framework, which aims to provide flexibility and savings when procuring major national and local schemes.

The increasing use of new technology will also play a part in the ongoing development and use of the network, particularly following the government’s recent announcement allowing initial trials for the use of autonomous vehicles on our roads.

The Infrastructure Bill sets out the framework for the transformation of the HA into a government-owned ‘strategic highways company’. The Bill is currently at the committee stage within the House of Lords and is expected to receive Royal Assent in time for the transformation to take place as planned in Spring 2015. In parallel, the Department for Transport is developing the first Road Investment Strategy which will set out a long-term investment plan for the strategic road network, providing details of performance requirements and delivery expectations to be met by the new company. We expect the strategy being agreed by the end of the year, following a draft due to be published shortly.

KEY POINTS

- The Highways Agency will become a government-owned company overseeing a long-term spending and performance programme.
- This will bring the highways industry broadly into line with other regulated industries, such as rail and utilities, but without privatisation.
- A new Collaborative Delivery Framework aims to provide flexibility and savings when procuring major national and local schemes.
- The Infrastructure Bill sets out the framework for turning the Highways Agency into a government-owned ‘strategic highways company’.
- The Bill is expected to receive Royal Assent in time for the transformation to take place as planned in Spring 2015.
- A Road Investment Strategy setting out a long-term investment plan for the strategic road network could be agreed by the end of the year.

Transformation of the HA

The HA is currently an executive agency, part of the Department for Transport, and as a result is subject to a number of constraints which make long-term planning difficult, both for the Agency and for its suppliers. For example, the HA is much closer to the government than other infrastructure providers and subject to greater influence and potential interference...
in relation to the management of the network. Historically, there has also been a lack of strategic guidance for the HA, with a focus on short term and local issues. The HA is currently funded through an annual allocation from the Department for Transport’s budget and is subject to central government restrictions on use of funds. This means the Agency has a lack of flexibility when deciding when and how to spend its budget. In particular, there are no long-term spending commitments and the Agency must spend its budget allocation within the relevant year.

The reforms and introduction of the Road Investment Strategy are intended to address these shortcomings by improving efficiency, acceleration, accountability and transparency. As a result, the changes should bring significant benefits to the Agency, to the supply chain and to road users, providing the HA with the flexibility to plan projects while providing both the Agency and its supply chain with certainty and stability. The government anticipates the changes saving the taxpayer £2bn over a ten year period.

Industry view

From recent discussions with various parties within the industry it is clear that these changes are broadly welcomed, but that care will be needed when implementing the plans to ensure they deliver on their considerable promise. It will also be important that those involved on all sides are able to build on lessons that can be learnt from other infrastructure bodies that have been through similar processes. For example, the water industry suffers from cyclical spending patterns (albeit on a much longer timescale than the traditional HA annual peaks) and it will be important that spending across each Road Investment Strategy period is managed to ensure consistency and avoid peaks and troughs at each changeover point. These spikes can have the potential to leave suppliers ‘in limbo’ and little better off than under the existing arrangements.

It is proposed that monitoring of the new HA strategic highways company will be undertaken by a dedicated unit within the Office of Rail Regulation – ‘Strategic Road Network Monitor’ – and within Passenger Focus – ‘Road User Focus’. It is therefore important that the highways functions are not simply ‘bolt ons’ to these existing functions. For example, the nature and use of the strategic road network managed by the HA are very different from the rail network, particularly given the lack of charging at point of use and the variety obvious across the network between various regions.

Further efficiencies

Network Rail, already a government-owned company, was relatively well insulated from the budget reductions resulting from the Spending Review of 2010 and actually saw increased investment in a range of areas. By contrast, significant reductions were made to the HA’s budget. As a result, in addition to the savings which are anticipated to result from the significant changes to the operation of the HA, the Agency has already made significant progress in achieving efficiency savings and budget reductions through other means. For example, the National Audit Office (NAO) report ‘Maintaining Strategic Infrastructure: Roads’ released in June 2014 identified a range of actions taken, including renegotiation of its contracts for routine maintenance and moving to an outcome based contract, rather than prescribing particular maintenance regimes or activities. The Agency was also able to introduce a number of these measures into existing contracts to realise the savings as early as possible.

In addition to the significant changes taking place on a national scale, there is scope for improvements in efficiency by local authorities. The NAO comments that local authorities could build clearer cases for programmes of preventative maintenance and increase collaboration with other authorities and the industry generally; for example 102 of the 152 local authorities are part of an alliance to make use of constrained capacity and capability.

There is scope for greater collaboration, such as under the London Highways Alliance Contract, under which participating highways authorities are able to benchmark the performance and pricing of the four area-based contractors against each other.

Benefits of the London Highways Alliance Contract include a move away from constant re-tendering across the 34 highways authorities in London, which was estimated to cost the industry £9 million each year. This approach is similar to that adopted under the HA’s new framework contract, which is intended to provide greater flexibility and efficiency in procuring a range of projects.

Collaborative Delivery Framework

As well as changes to the management and funding
of the network, the way in which work is procured and delivered is also changing. The HA announced its Collaborative Delivery Framework in September 2013. The HA is expected to announce in the Autumn which tenderers have been successful in gaining a place on the framework.

The new framework will be used to procure works in relation to large parts of the motorway upgrade programme, parts of conventional major schemes (including, for example, the A14 upgrade), and also for improvement works, such as junction improvements, asset renewals and parts of other larger projects. Framework leader, Tony Turton, said:

‘The framework and longer-term funding, in effect, aligns us with Network Rail and other utilities which will allow the supply chain to invest. It’s a huge step forward for highways building in the UK.’

The Collaborative Delivery Framework is a four year contract divided into four lots which will cover: design and engineering services; schemes worth up to £25m; projects of £25m to £100m; and work worth £100m to £450m. Contractors working on projects will be able to appoint suppliers from the design and engineering services lot.

Industry view
A move by the HA towards greater collaboration would be generally well received and from our discussions, it is apparent that there is a real appetite in the supply chain to work more collaboratively. However, it is notable that a number of those with an interest in the Collaborative Delivery Framework considered that the collaboration did not go far enough. The Framework is intended to provide flexibility for the HA and to encourage collaboration at all levels.

A key issue for the supply chain (particularly historically, while the HA has operated on an annual funding basis) are the disproportionately high costs of constantly tendering for major projects. This issue is further compounded when there is little link up between the Area Teams of the HA and the local authorities in those regions, which can result in significant spikes of procurement activity with huge costs to the supply chain.

Although the Collaborative Delivery Framework is likely to go some way towards resolving these issues, any significant degree of secondary tendering would have the potential for undoing this good work and lead back to ‘the bad old days’ of continuous and expensive tendering cycles (on top of the no doubt significant investments already made by those aiming for a place on the Framework).

These are areas the ‘new’ HA may well choose to look at further to ensure the potential benefits of its transformation, coupled with the new delivery framework, can be maximised.

Technology
In addition to the structural improvements possible as a result of a new strategic highways company, the Road Investment Strategy and the Collaborative Delivery Framework, there may also be significant efficiency gains to be made through the increasing use of technology. For example, our discussions have revealed that significant strides in efficiency are possible by simply maximising the technology which already exists such as ‘smart motorways’, variable speed limits, CCTV monitoring and active traffic management.

Relatively modest investments aimed at implementing existing technologies across the network have the potential to realise very significant benefits. As well as making the most of existing technology, it is likely that, over time, the way in which we use the road network will change. The most striking example of this is perhaps the introduction of autonomous or ‘driverless’ vehicles.

There are practical and legal issues to be considered before the use of such vehicles is commonplace. In an unclassified report, the FBI warns that autonomous vehicles will open up the possibility ‘for a car to be more of a potential lethal weapon than it is today’. However, trials are already underway by major manufacturers as well as by Google. At the end of July, the government announced a £10 million fund aimed at trialling the technology in the UK.

Conclusion – taking the right turns?
The success of these significant reforms will only be known once they are fully implemented. However, the changes seek to address existing shortcomings in the optimisation of the supply chain, delivery of projects and development of the strategic network. These factors are fundamental to maximising the existing network as well as investing in the future of our highways. CL