

Royal Automobile Club Foundation for Motoring

***Governance and Administration of
National and Local Roads in Great
Britain:***

Executive Summary

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The Royal Automobile Club Foundation has commissioned a number of external experts to write a series of think pieces and occasional papers throughout the course of 2009/10. This paper is about the Governance and Administration of Local Roads and is report number 09/101.

The Royal Automobile Club Foundation is an independent charity that explores the economic, mobility, safety and environmental issues relating to roads and the use of motor vehicles, and campaigns to secure a fair deal for responsible road users. Independent and authoritative research for the public benefit and informed debate are central to the RAC Foundation's standing.

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Road users contribute £46 billion to the Exchequer each year in taxes and charges and yet unlike other essential utilities there is little official or independent mechanism in place to take account of motorists' needs.

This paper asks whether features of the framework for regulated utilities could be used to improve the governance and administration of the roads network, and responsiveness to the needs of road users.

We all rely on utilities – water, electricity, gas, telecoms etc. Many of these services were once provided by local authorities, only later to be nationalised. But the current ownership and delivery model derives from privatisation in the 1980s and early 90s.

The UK's road infrastructure was largely exempt from these changes. In England, responsibility for the road network is split between 82 local authorities and, since 1994, the Highways Agency.

The framework adopted for the various utility sectors contains some common features including:

- Obligations to maintain supplies to customers and to plan to meet future needs.
- Economic regulators operating at arm's length from Government;
- Medium-term financial frameworks, with decisions on price caps, investment and outputs made every 5 years;
- Common methodologies for price-setting based on providing an allowed return on a regulatory asset base (RAB);
- Consumer protection through customer representation bodies; and
- Government's role given effect through powers to issue guidance to regulators in relation to social and environmental policies.

Over the past 20 years, the frameworks have evolved to reflect the nature of the sectors. In liberalised markets like energy and telecoms, the extension of customer choice has been the spur to improving service: in monopoly sectors like water, the spur comes from comparing performance between companies.

The paper examines a number of these features in relation to two sectors – water and rail. Although not strictly a utility in the sense of providing universal services, the rail industry was privatised in 1996/96 using a comparable framework, though Government subsidy remains a distinguishing feature.

Water Industry

The water industry in England & Wales comprises 10 regional water and sewerage companies and 11 smaller water-only companies. Companies operate under a set of statutory duties and conditions of appointment (*the licence*). Ofwat is the economic regulator in England & Wales. There are also environmental and quality regulators. Customers are represented through the Consumer Council for Water (CCW).

Since privatisation in 1989, the industry has invested £80bn in improving standards of drinking water, environmental quality, and has achieved substantial gains in efficiency, leakage reduction and better customer service.

In Scotland and Northern Ireland, state-owned water businesses operate under comparable frameworks.

In relation to lessons for the roads sector, three points are worth noting;

- Water companies are obliged to provide an economical and efficient supply of water to those who demand it. Companies are also required to produce 25-year water resource plans setting out how they intend to meet future needs.
- Domestic customers have historically paid for water on the basis of a property's rateable value, rather than consumption. But this is changing through the extension of water metering – particularly in areas of water stress like the South East. Evidence suggests metering cuts household usage by 10-15%.
- The CCW works to ensure customer views and priorities are properly taken into account by companies and Ofwat in regulatory reviews.

Rail Industry

The rail industry was privatised from 1994 using a more radical model involving the break up of a state-owned railway (British Rail) into a national infrastructure provider (Railtrack, then Network Rail), passenger franchise train operators and freight operators.

The original architecture included an economic regulator (the Office of Rail Regulation, ORR), a Government agency awarding franchises (latterly the Strategic Rail Authority, SRA) and customer representation through Passenger Focus.

The Railways` Act 2005 introduced major structural reforms. The SRA was abolished with Government taking control of strategy and the awarding of rail franchises. The economic regulator, ORR, took over safety from the HSE. More powers were given to devolved administrations in Scotland, Wales and London.

And under the new funding structure, every 5 years, prior to the start of a periodic review of Network Rail outputs and funding, Government publishes two documents: a High Level Output Specification (HLOS) of the outputs it wishes to see delivered in the forthcoming control period and a Statement of Funds Available (SoFA). The latter sets an effective budget constraint for the review to be conducted by ORR.

The outcome of the first periodic review by the ORR under the new arrangements came in October 2008. It provided Network Rail with funding of £26.7bn over 5 years to maintain, renew and enhance the network, including improvements in efficiency, reliability and capacity.

Though an improvement on what went before, the new framework can be criticised for not addressing the long-term needs of the network. In rail, there is no equivalent of the 25-year resource plans water firms must produce. This is crucial as DfT growth projections suggest a doubling of current traffic volumes over the next 25-30 years.

The Current Framework for Roads

There are almost 395,000 kms of roads in Great Britain ranging from motorways to unclassified. The majority are the responsibility of local authorities, though responsibility for trunk roads fall on the Highways Agency.

In England, the Highways Agency, an executive agency of the DfT, operates, maintains and improves the strategic network. It is responsible for some 7100kms - less than 2.5% of England's total road network. Its principal focus is traffic management. The DfT retains overall responsibility for strategic development, policy and funding of the strategic road network.

There is a big road capacity problem. Road building has fallen steadily since the mid-1990s yet traffic volumes have grown. The 2006 Eddington Study predicted that by 2025, without action, congestion will be 30% greater.

The last year has seen a number of Government policy statements on how best to deliver, in a sustainable way, extra capacity. A reappraisal of schemes in the roads programme has recently been completed following feasibility studies on hard shoulder running on the M42, and testing of the concept of 'managed motorways'. £6bn of funding has been announced for schemes on the English strategic network up to 2015.

However, in relation to the current approach to road investment:

- Without an independent regulator, there is no secure medium-term funding framework or independent monitoring of the performance of the Highways Agency.
- The degree of output commitment for the roads programme is much lower than we have for railways; cost overruns on particular schemes will be at the expense of other parts of the programme.
- Road users have little input into investment plans. Currently input comes through Regional Development Agencies whose strategies feed into a system of regional funding allocations.
- The Highways Agency role is much more constrained relative to Network Rail. It has no strategic responsibility and no borrowing powers. Yet its network is valued at £85bn, three times the £28.6bn value of the regulatory asset base of Network Rail in England & Wales.
- Performance measurement for the road network is less well developed than for railways and other utilities and there is no consumer body surveying road user satisfaction and inputting into network planning.
- The fragmentation of responsibility for the network is a further factor that weakens accountability between user and provider.
- There is a growing maintenance backlog on local authority roads.

An Approach to Reform

Reform of the present road governance structure, drawing on the utility and railway models, faces two main difficulties. First is the lack of a customer billing relationship around which customer service standards can be set. Second is the absence of a revenue stream to provide a stand-alone Highways Agency with corporate status and borrowing powers.

The history of UK road pricing has been a series of false dawns, with the most recent failure coming in Manchester. However, with growing pressure on the major road network, attitudes could change if pricing is linked to an improved road system, and demand management linked to a green agenda. In water, there has already been an attitudinal shift towards domestic metering.

Even without the adoption of national road pricing, the paper argues for fundamental reform of the current governance arrangements, including:

- Changing the Highways Agency from executive agency to a corporate body, with a more arm's length relationship with Government.
- Formalising the duties of the national infrastructure provider in relation to maintaining, renewing and enhancing the strategic highways network in England and meeting the future demands of road users.
- Providing the new organisation with an independent funding stream through assignment of an element of vehicle taxation –until such time as a general system of road user charging can be introduced.
- Formalising the role of Government in setting strategy for the national roads network –drawing upon elements of the current HLOS and SoFA system for railways. This would also allow an integrated approach to transport planning.
- Establishing an independent economic and safety regulator responsible for determining the funding and outputs for the Agency for each 5 year review period, setting efficiency targets and monitoring outputs and service levels.
- Giving road users a voice through a Consumer Council for Roads.
- Transferring responsibility for more of the regional trunk road network in England to the new organisation - reversing the recent trend.

Issues arising from these broad proposals fall into 4 categories:

1. What kind of corporate model for the new network organisation?

Within the regulated utility sector, several corporate models exist including PLCs; privately owned businesses; mutual 'not for dividend' companies (Welsh Water or Network Rail); regulated public corporations or 'Go-cos' (Scottish Water or Royal Mail); or other privately owned businesses with a Government stake (NATS). There is also the older public trust model, still found in the case of ports.

These different models would need to be assessed in terms of their financing arrangements, incentive properties, governance and accountability.

2. Funding

The paper notes that earmarked road funds, that allocate an element of road tax or fuel duty to funding the roads, is well established in countries like New Zealand, Japan and the USA. These can be seen as indirect user charges.

In the UK, vehicle excise duty raised £5.2bn in 2007. This compares with the 2008/09 budget for the Highways Agency of £6.9bn.

The practicalities of assigning VED as a UK roads fund would need to be worked through both in terms of devolution and, within England, a decision made as to whether the fund should be assigned merely to the Highways Agency or, more generally, to all road authorities.

3. Regulatory and Consumer Framework

There are two main organisational issues:

- Should there be a single roads regulator, or combined road/rail body?
- Should there be a dedicated consumer body or should Passenger Focus responsibilities be extended to cover road users?

Drawing on precedent from ORR, the paper also argues for a combined economic and safety regulator who would be responsible, inter alia, for setting targets for improving the safety of the trunk road network.

4. Government's Strategic Role

Under these changes, Government would set the overall strategy for the strategic road network – as they currently do for rail. Recent developments in DfT, notably the setting up of a new National Networks Strategy Group, with 14 strategic national corridors identified, will in future provide the basis for coordinated plans for the development of strategic road and rail networks. There would also be regard for the Planning Act 2008, which establishes an independent Infrastructure Commission, under which Government departments must produce national policy statements (NPSs). For DfT, this would include major proposals such as motorways and high speed rail links.

Two final observations:

- The introduction of a roads regulator would facilitate the development of a full range of performance measures for the roads network – and focus attention on improving performance standards to road users.
- The new consumer body for roads could be expected to play an important role in helping to determine regional investment priorities - to be reflected in regional strategies.

Conclusion

Despite the areas of concern listed above, and given the size, value and usage of the road network, there remains a compelling argument for the reform of the system which regulates and manages it, and which is currently unfit for purpose.