



House of Commons
Committee of Public Accounts

The procurement of the National Roads Telecommunications Services

**Forty-sixth Report of Session
2007–08**

*Report, together with formal minutes, oral and
written evidence*

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The Committee of Public Accounts

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Publication

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Committee staff

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Contents

Report	<i>Page</i>
Summary	3
Conclusions and Recommendations	5
1 Planning the NRTS and choosing the procurement route	7
2 Procuring the PPP contract	10
3 The early operational performance of NRTS and the potential to provide benefits for the road user	14
Formal Minutes	16
Witnesses	17
List of Reports from the Committee of Public Accounts 2007–08	18

Summary

The strategic road network in England, consisting of 4,800 miles (7,700 km) of trunk roads and motorways, is managed by the Highways Agency (the Agency), an Executive Agency of the Department for Transport. Since 1998, the objective of the Agency has been to reduce traffic congestion through improved traffic monitoring and travel information.

In September 2005, the Agency signed a 10½-year Public Private Partnership (PPP) contract for the National Roads Telecommunications Services (NRTS) with GeneSYS Telecommunications Ltd. The contractor agreed to upgrade, operate and maintain the telecommunications systems along the English motorway network. The deal was structured so that upgrading and operating the systems were part of a PFI-type contract, but the Agency could also order changes to the systems from a pre-priced schedule of additional services. The eventual life time cost of the contract therefore depends on the number and value of additional services ordered from GeneSYS. At contract award, the Agency expected that the contract would cost £385 million (present value in 2004 prices).

The Agency aimed to complete the procurement in 21 months for a cost of £3 million. The actual procurement took over five years to complete and cost £15.5 million in advisers' fees. Most of the additional time and cost was incurred in meeting the Agency's requirements for high quality bid documents.

Following a false start to the tendering process, subsequent loss of interest by good potential bidders and the early withdrawal of two out of the four short-listed bidders, the Agency had just two bidders interested in the project. One of these bidders, however, consistently bid considerably more than the other, and after prompting by the Agency withdrew just before selection of preferred bidder. The Agency managed to avoid deal drift during negotiations with the remaining bidder, and secured contractual arrangements close to the terms it wanted. At contract award, the Agency's estimate of the cost of the Public Sector Comparator (PSC) (£415 million) was marginally more than the PPP deal (£385 million). The PSC included an allowance of £85 million for risks, but the calculations underpinning this allowance did not follow best practice. The Agency also justified the PPP approach because it transferred the risks of major cost and time overruns inherent in large telecommunications projects, which are not a core Agency expertise.

From October 2007, following a two-year upgrade of the telecommunications systems, the new services became operational and benefits for road users from other Agency projects dependent on the NRTS are beginning to be realised.

On the basis of a Report by the Comptroller and Auditor General,¹ we examined the Highways Agency on the procurement of, and potential benefits from, the National Roads Telecommunications Services.

1 C&AG's Report, *The Procurement of the National Roads Telecommunications Services*, HC (2007–08) 340

Conclusions and Recommendations

- 1. After widening the scope of the NRTS project and finding that the telecommunications industry had little interest in commercially exploiting the NRTS systems, the Agency changed the rationale for a PPP.** Some projects do change in scope during their developmental stages and this change can affect the choice of procurement route. When this happens, the procuring authority should conduct a full review into the value for money of its options.
- 2. The Agency invited expressions of interest from potential bidders too early.** During the 17-month short-listing period, two well qualified potential bidders dropped out and the Agency reissued its invitation to re-stimulate the market. For market stimulation to work well, an authority needs to know what it requires and what it can afford, so that the procurement process can go forward effectively. The time between advertising a project and short-listing bidders should be no more than a few months.
- 3. This Committee has expressed concerns in the past about the spurious precision of some Public Sector Comparators but, in this case, the Public Sector Comparator cost was a single figure estimate, rather than a range, which is not good practice.** The public sector comparator included a point estimate of £85 million for risk, equivalent to 26% of the non-risk adjusted price. In calculating this risk adjustment, the Agency did not include any explicit allowance for events turning out better than expected. Procuring authorities should always estimate ranges, not single figures, for comparators.
- 4. The procurement took five years to complete, rather than the original estimate of 21 months, and the procurement process cost five times the original budget.** The Agency never had a clear idea about the time and cost needed to complete the procurement. In every updated forecast, the Agency's revised budget and timetable were optimistic, often by considerable margins. Senior Responsible Officers (SRO) need to be wary when their project teams repeatedly report small increases in the budget and slippages in the timetable. SROs need sufficient evidence to judge whether costs and timetables are under control and they need to exercise their authority to review the project's progress if these delivery risks look significant.
- 5. The Agency did not deploy effective controls over the work of its advisers.** The Agency had two staff overseeing a monthly average of £250,000 of expenditure on advisers. These individuals had insufficient time available to implement effective controls to ensure that advisers conducted their work efficiently. In future, the Agency should provide enough staff to ensure that its management controls function as intended.

6. **The procurement was marked by careful and thorough production of the bid documents and the draft contract.** The Agency decided that, if it were to produce a contract that clearly established and set out the obligations of the parties, each provision had to be considered in detail. This thoroughness, together with access to bidders' pricing models, strengthened the Agency's bargaining position during the preferred bidder stage and contributed to a £2 million fall in GeneSYS's bid price, without substantial changes to the allocation of risks.
7. **There were no incentives included in the advisers' contracts that expressly encouraged them to work efficiently.** Authorities should incorporate incentives into contracts with advisers that encourage performance, while preserving the importance of the relationship that exists between client and adviser.
8. **NRTS provides new opportunities for the Agency to give road users more detailed and helpful information than has been possible in the past, but also the potential for giving confusing messages.** The Agency should consult with road users, their representative bodies and other stakeholders to ascertain whether the NRTS-based information that it provides best meets the needs of road users.
9. **The ultimate test of the value for money of NRTS will be the benefits that it delivers via linked Highways Agency projects to manage the strategic road network.** The Agency values these benefits at £2,800 million, but this is dependent on the programme of associated projects proceeding in full and being delivered on time and to cost. The Agency should conduct a review of the cost and benefits of the NRTS and associated projects half way through the 10½-year life of the NRTS contract.

1 Planning the NRTS and choosing the procurement route

1. In 1998, the Government announced that the role of the Highways Agency (the Agency) was to change from that of road builder to that of a road network operator, with objectives to reduce traffic congestion through improved traffic monitoring and travel information. At the time of the announcement, the Agency was responsible for operating its own telecommunications systems that captured information about road, traffic and weather conditions across the motorway network through 14,000 roadside devices. The systems also provided the Agency with the means of directly communicating traffic information to road users through, for example, overhead messaging using variable message signs.²

2. The backbone to the telecommunications systems was a trunk network of copper transmission cables carrying voice and data signals between the roadside devices and 32 local police control offices. The transmission of these signals relied on obsolete analogue technology. Across approximately half of the motorway network, the Agency had installed, alongside its copper cables, fibre optic cables that had the higher transmission capability needed to carry CCTV images.³

3. In its new role as road network operator, the Agency considered that it needed enhanced telecommunications. The project for the National Roads Telecommunications Services (NRTS) began as an upgrade to the cable network supporting the motorway telecommunications systems, including laying lengths of fibre optic cable to complete a high capacity resilient trunk cable network. The Agency envisaged that its contractor would use the upgraded assets to sell excess telecommunications capacity to third-parties. This revenue-generating opportunity was the principal driver behind the Agency's original decision to proceed with a public private partnership (PPP).⁴

4. Excess cable capacity in the telecommunications industry around 2000 meant that potential contractors had no interest in exploiting the enhanced network. At the same time, the Agency widened the scope of the NRTS to accommodate relevant aspects of the Agency's proposals to meet objectives in its then 10-year plan. Its justification for the procurement of a PPP, rather than a conventional procurement, shifted to:

- transferring of technology risk to the party best able to manage it; and
- enabling private sector flexibility in the whole life management and adoption of technology.⁵

5. The actual cost of the NRTS contract depends upon the volume of additional services that the Agency will order over the term of the contract. To evaluate bidders' best and final offers, the Agency used a demand scenario based on the mid-point between ordering no

2 C&AG's Report, paras 1.1–1.4

3 C&AG's Report, paras 1.4, 1.5; Figures 4, 5

4 Qq 19, 27; C&AG's Report, para 1.3

5 Qq 3, 16, 27, 73

additional services, and ordering what the Agency considered was a likely high level of additional services. On the basis of this scenario, the present value of the Agency's payments under the negotiated contract with GeneSYS Telecommunications Ltd, the winning bidder, will amount to £385 million⁶ (present value at 2004 prices). The Agency compared this figure against a Public Sector Comparator of £415 million (**Figure 1**).⁷

Figure 1: From September 2004, the Agency calculated that GeneSYS's offers were below the Public Sector Comparator

BID ROUND	COST IN PRESENT VALUE TERMS/£ MILLIONS (2004 PRICES)		
	GENESYS	LINK	RISK ADJUSTED PUBLIC SECTOR COMPARATOR
Invitation to Negotiate (July 2003) ¹	680	910	660 ³
Evaluation after Clarification (December 2003) ¹	690	920	660 ³
Best and Final Offer (June 2004) ²	490	770	450 ^{3,4}
Revise and Confirm (September 2004)	425	-	435 ⁴
At contract award (September 2005)	385	-	415 ⁴

¹ These April 2004 priced figures were calculated by inflating April 2003 prices using the Office for National Statistics' Retail Prices Index CHAW (all items).

² Between the Evaluation after Clarification and the Best and Final Offer, the Agency reduced the scope of works that would be covered by the base service charge.

³ The Public Sector Comparator at Invitation to Negotiate, Evaluation after Clarification and Best and Final Offer included an allowance for non-recoverable VAT, which was not included in the bids.

⁴ From Best and Final Offer there were minor incompatibilities between the Public Sector Comparator and the bids. To achieve like-for-like comparisons, the Agency adjusted the values of the bids rather than alter the PSC. In the table above, the Public Sector Comparator has been adjusted rather than the bids.

6. This Committee has previously seen Public Sector Comparators that contained errors and omissions. Some contained spurious precision in their figures, while others had been manipulated to achieve the desired result.⁸ Prices in the Agency's comparator did not include possible discounts that the Agency could have secured had it made bulk orders for telecommunications equipment. The estimated savings could have reduced the comparator by between £4 million and £14 million. However, the Agency considered that, under a conventional procurement, it might not have secured funding for the entire project and, therefore, would have progressed the upgrade works in a piecemeal manner. Consequently, the Agency doubted that it would have secured the best bulk order discounts, but did not expressly state this doubt in its business case.⁹

6 The present value of GeneSYS's offer was £385 million in 2004 prices. The NAO calculated that this offer had a present value of £345million in 1999 prices when deflated using the Office for National Statistics' Retail Prices Index CHAW (all items); C&AG's Report, paras 1.19, 1.21; Figure 8

7 Q 59; C&AG's Report, para 1.21, 2.29, Figures 8, 15

8 Public Accounts Committee, Twenty-eighth Report of Session 2002–03, *Delivering better value for money from the Private Finance Initiative*, HC 764

9 Qq 5, 12–15

7. The Public Sector Comparator also included a risk allowance of £85 million, equivalent to 26% of the non-risk adjusted figure. The risk adjustment in the NRTS comparator was within the range of risk allowances included in the Agency's twelve other PFI contracts (7% to 31%). The calculation did not allow for events turning out better than expected, however, nor did it take into account risk mitigation that would have been applied had individual cost items been identified as being particularly vulnerable. As a result, the risk allowance might have overestimated the risk transferred in this deal.¹⁰

8. Despite uncertainties in the pricing of inputs and of risks, which had to rely on the experience and judgement of the Agency's advisers, the Agency's Public Sector Comparator was a single point estimate, rather than a range. This approach presented the comparator as a pass or fail value for money test, rather than one element of a fuller value for money assessment. This falls short of best practice in value for money assessments.¹¹

¹⁰ Qq 5, 17, 18; C&AG's Report, para 2.35

¹¹ Q 3; C&AG's Report, paras 1.18, 2.29, 231–2.35

2 Procuring the PPP contract

9. In 2000, the scope of the NRTS project comprised extending the trunk fibre optic cable network to create a core resilient network covering the motorways linking London, Bristol, Birmingham, Manchester and Leeds. The Agency hoped that the contractor would renew some life-expired assets and generate revenues through commercial exploitation of these assets. The estimated cost of the project, net of expected revenues was £40 million¹² (present value, 1999 prices).¹³

10. In March 2001, eight months after starting the procurement, the Agency increased the scope of the project to include upgrading the communications technology and installing, operating and maintaining local connections that linked roadside devices to the trunk cable network. The change in scope resulted from potential economy and efficiency gains that the Agency considered it could achieve by incorporating other motorway telecommunications projects into NRTS. Under the changed scope, the contractor would also have end-to-end responsibility for transmission of information between the control centres and roadside devices.¹⁴

11. Market interest weakened during the procurement. In August 2001, the Agency invited potential bidders to express their interest in the project and so commenced the competitive stage of the procurement. Interest fell away, however, during the 17-month long short-listing process. The Agency dispatched a pre-qualification questionnaire to those parties that had expressed an interest in the project. Nine of the responding parties returned the questionnaire, from which the Agency judged six were suitable for short-listing. The Agency underestimated how long it needed to complete preparation of its bid documents.¹⁵

12. Some potential bidders showed signs of losing interest after they had waited nearly a year to discover whether they had been short-listed. To re-stimulate the market, the Agency re-published its notice in the Official Journal of the European Communities in August 2002. Two of the stronger potential bidders that had responded to the first notice did not reply. In December 2002, the Agency short listed the four sufficiently qualified bidders that remained interested in the project. Two of these dropped out of the competition shortly after receiving bid documents.¹⁶

13. There was a significant difference between the pricing offered by the two remaining bidders, LINK (a Serco led consortium) and GeneSYS. In the three competitive bidding rounds, the Agency's assessments of LINK's offers revealed them to be more expensive than GeneSYS's offers by between £230 million and £280 million (**Figure 1**).¹⁷

12 The NAO calculated that GeneSYS's accepted offer had a present value of £345 million in 1999 prices when deflated using the Office for National Statistics' Retail Prices Index CHAW (all items); C&AG's Report paras 1.19, 1.21; Figure 8

13 Qq 7, 19, 27; C&AG's Report, paras 1.13, 1.15

14 C&AG's Report, para 1.19

15 C&AG's Report, paras 2.12, 2.13; Figure 10

16 C&AG's Report, paras 2.13–2.15; Figure 11

17 C&AG's Report, para 2.18; Figure 13

14. The Agency wanted to transfer the risk of operational performance of the existing telecommunications assets. The Agency, however, possessed all available information about the performance of these assets. The Agency collected together as much material as it had about the assets, but was not prepared to warrant the accuracy of the information because it did not want to compromise the intended risk transfer. GeneSYS was prepared to accept the risk transfer, but only on the basis of its own due diligence of the condition of the existing assets.¹⁸

15. After receiving initial bids in July 2003, the Agency conducted an affordability review that resulted in a 168 kilometre reduction in the amount of fibre optic cable that the contractor would lay in the first two years of the contract. While the Agency left 110 kilometres of fibre optic cable laying in the contract, it used conventional procurement means to install 168 kilometres of fibre optic cable between 2003 and the award of the NRTS contract in 2005. As a result, the Agency itself laid some of the cable it originally planned to include in the NRTS deal.¹⁹

16. When the Agency started the procurement in July 2000, it expected to complete the process in 21 months, for a cost of £3.1 million in advisers' fees. The procurement took over five years to complete, and the advisers' fees amounted to £15.5 million. Some of the growth in the procurement can be explained by the two major changes in the scope of the project and in accommodating changes in traffic services that occurred during the procurement, in particular, the Government's decision to bring forward the replacement of 32 Police Control Offices with seven Regional Control Centres and the introduction of the Agency's traffic officer service.²⁰

17. The majority of the increase to both the procurement timetable and the budget, however, can be attributed to the Agency's desire to produce high quality, clear and unambiguous bid documents. Neither the Agency nor its advisers, a consortium called KHHD (comprising KMPG, Herbert Smith, Hyder and Detica), had any real understanding of the amount of work required to meet the desired quality (**Figure 2**). With the Agency almost completely dependent on its advisers for the production of the bid documents and other procurement related material, the Agency needed good controls to ensure that its advisers were performing their obligations efficiently, particularly since the advisers were being paid on the basis of hours worked.²¹

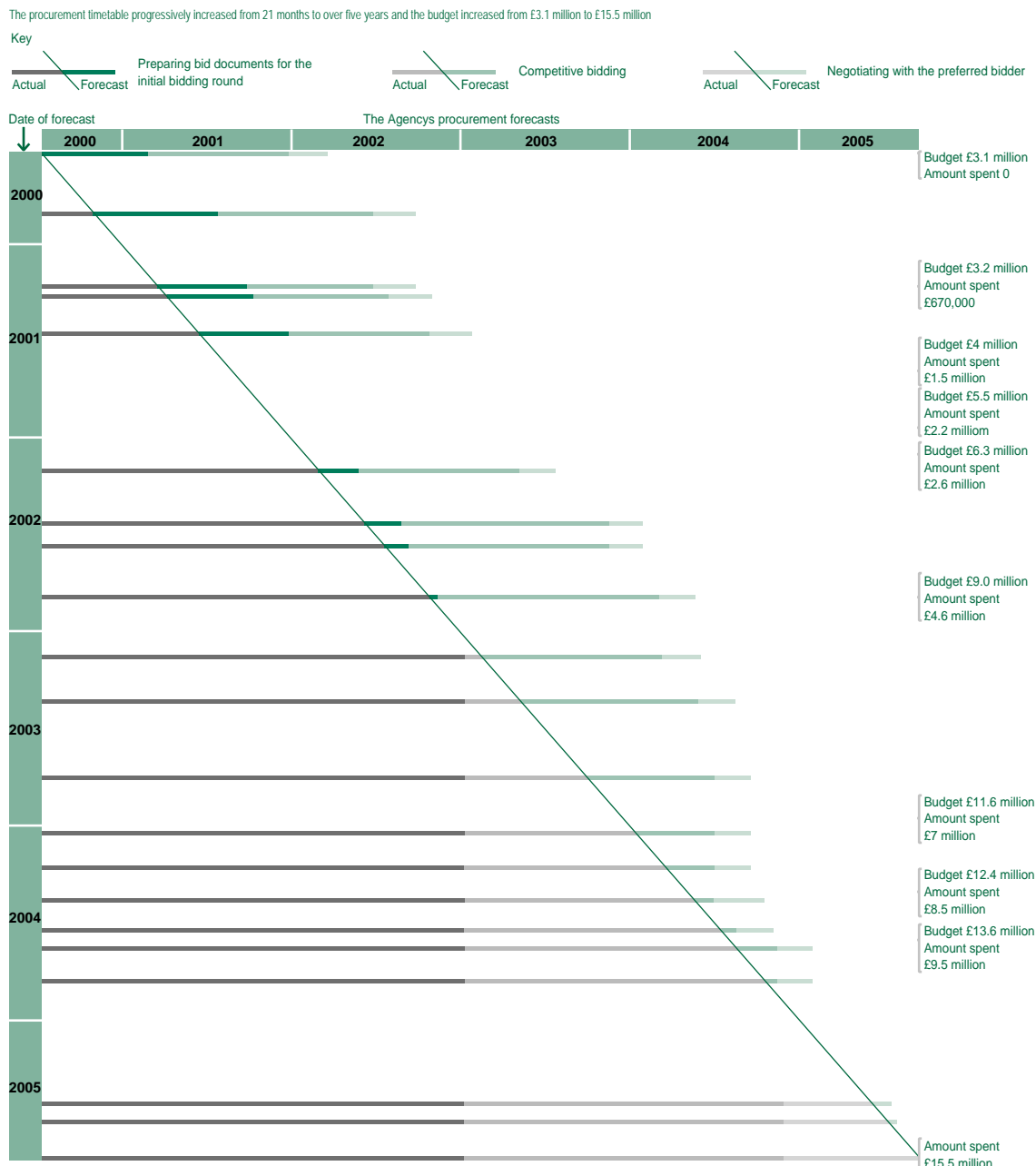
18 Qq 23–25; C&AG's Report, paras 2.2–2.4

19 Q 6; C&AG's Report, paras 2.15, 2.36–2.37; Figure 17

20 Qq 7, 19, 21–22; C&AG's Report, paras 1.19, 2.28, 2.36–2.37, 3.2–3.3; Figure 7; Appendix 5

21 Qq 2, 4, 20, 30, 37–38; C&AG's Report, paras 3.5–3.8

Figure 2: The procurement timetable progressively increased from 21 months to over five years and the budget increased from £3.1 million to £15.5 million



18. Ultimately, the Agency had no effective incentives to influence the behaviour of its advisers. The Agency had only two members of staff dedicated to the procurement. These individuals not only reviewed the considerable volume of material prepared by the advisers, but also had to oversee, on average, a £250,000 monthly spend on advisers. While they focused on the production of quality documents, controls over the advisers were allowed to slip.²²

19. Although the Agency was over-reliant on the good faith of its advisers, the two members of the Agency's staff dedicated to the project remained in post throughout the

²² Qq 28–35; C&AG's Report, paras 3.7–3.8; Appendix 5

procurement and the two-year long build phase of the contract. The Agency benefited from their detailed understanding of the project and their insistence on high quality bid and contract documents, particularly when during the preferred bidder negotiations, there was no substantial slippage in risk transfer, and GeneSYS's offer actually fell by £2 million.²³

20. The Agency's bargaining position in the negotiations also benefited from the detailed knowledge that the Agency and its advisers had acquired about GeneSYS's pricing bases from the financial and cost models that the bidders' submitted as part of their bids. In September 2005, the Agency awarded the 10½-year NRTS contract to GeneSYS, a special purpose company owned by Fluor Corporation and HSBC.²⁴

23 Qq 2, 4, 20, 28–35; C&AG's Report, para 3.6

24 Q 20; C&AG's Report, paras 1.20, 2.24–2.25, 2.38, 3.6

3 The early operational performance of NRTS and the potential to provide benefits for the road user

21. GeneSYS completed the two-year long build phase of the project to time. The contractor encountered problems that it overcame without bringing claims against the Agency.²⁵ While the Agency does not know the profit that GeneSYS is making from the project, the Agency has protections under the contract including:

- a schedule of pre-priced additional work that the Agency can call off;
- provisions that entitle the Agency to share any cost reductions due to the application of innovation by the contractor;
- a biennial technology review entitling the Agency to a share in the likely reductions in the price of telecommunications equipment over time; and
- a simple payment deduction regime that covers continuous and intermittent faults, and is applied whenever a service is unavailable or, when the fault is caused by others, the service remains unavailable after the elapse of the agreed remedy period.²⁶

22. The Agency is exercising these rights. In the seven months since the new network became operational, the Agency has enforced its right to make payment deductions for lost services, which have amounted to £1.2 million, and GeneSYS is working towards eliminating teething problems with the new systems. The Agency has also secured 4% reductions in prices for telecommunications equipment under the biennial technology review.²⁷

23. The National Roads Telecommunications Services are fundamental to the Agency's ability to operate the English motorway network and improve the management of traffic on these roads. The Agency considers that improvements in its management of motorway traffic, such as hard shoulder running using active traffic management, will result in increased capacity of the existing motorway assets. In the past, such increases were achieved through motorway widening schemes. The traffic management improvements that the NRTS permits will not eliminate the need for such schemes, but will defer the need for motorway widening by increasing capacity of the existing roads.²⁸

24. The Agency considers that the new telecommunications systems are flexible, resilient and capable of easy change if the level of usage increases, and that the systems are required if the Agency is to implement successfully more wide ranging traffic monitoring and management. The Agency estimates that all the measures will achieve gross benefits in the

25 C&AG's Report, paras 4.1–4.3

26 Q 71; C&AG Report, para 4.8

27 Qq 68–69, 72; C&AG's Report, para 4.5–4.6

28 Qq 2, 8

order of £2,800 million (in non-discounted terms) and expects these benefits to exceed the costs of not only NRTS, but all other supported projects.²⁹

25. Road transport is unlike any other means of vehicular transport because many of the users make decisions about when, where and how they will use their vehicles to reach their destinations. The underlying rationale behind NRTS is that it will enable drivers to make better decisions by providing them with real-time information. Through NRTS, the Agency is communicating traffic information to motorists through roadside devices, such as variable message signs. However, the messages have to be succinct and the Agency accepts that these messages may not be comprehensible to all motorists. Other sources such as radio broadcasts are therefore available.³⁰

26. The information that projects facilitated by the NRTS are delivering is more reliable than information that motorists previously received. The Agency has received positive feedback from motorists about the reliability of messages indicating the time that motorists will take to travel to the next junction. However, there remains a perception among motorists that information is out of date. The Agency's information strategy is to convince motorists about the reliability of the available information and to encourage them to plan their journeys accordingly. The benefit should be more reliable and safer journeys.³¹

29 Qq 2, 73

30 Qq 40–41, 60

31 Qq 46, 61–65

Formal Minutes

Monday 30 June 2008

Members present:

Mr Edward Leigh, in the Chair.

Mr Richard Bacon

Mr Austin Mitchell

Mr Paul Burstow

Phil Wilson

Keith Hill

Draft Report (*The procurement of the National Roads Telecommunications Services*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 26 read and agreed to.

Resolved, That the Report be the Forty-sixth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 15 July at 12.00 pm.]

Witnesses

Monday 12 May 2008

Page

Mr Archie Robertson, Chief Executive, and **Mr David Bradbrook**, Contract Manager for the National Roads Telecommunications Services, Highways Agency

Ev 1

List of Reports from the Committee of Public Accounts 2007–08

First Report	Department for International Development: Tackling rural poverty in developing countries	HC 172 (Cm 7323)
Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227 (Cm 7323)
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
Seventh Report	Excess Votes 2006–07	HC 299
Eighth Report	Tax Credits and PAYE	HC 300 (Cm 7365)
Ninth Report	Helping people from workless households into work	HC 301 (Cm 7364)
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322 (Cm 7364)
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71 (Cm 7364)
Twelfth Report	Coal Health Compensation Schemes	HC 305 (Cm 7364)
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131 (Cm 7364)
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85 (Cm 7365)
Fifteenth Report	The Pensions Regulator: Progress in establishing its new regulatory arrangements	HC 122 (Cm 7365)
Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143 (Cm 7366)
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176 (Cm 7366)
Eighteenth Report	Improving corporate functions using shared services	HC 190 (Cm 7366)
Nineteenth Report	BBC Procurement	HC 221 (Cm 7366)
Twentieth Report	HM Revenue & Customs: Helping individuals understand and complete their tax forms	HC 47 (Cm 7366)
Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157 (Cm 7366)
Twenty-second Report	Improving the efficiency of central government's use of office property	HC 229 (Cm 7366)
Twenty-third Report	Report on the NHS Summarised Accounts, 2006–07: Achieving financial balance	HC 267 (Cm 7453)
Twenty-fourth Report	The privatisation of QinetiQ	HC 151 (Cm 7453)
Twenty-fifth Report	The cancellation of Bicester Accommodation Centre	HC 316 (Cm 7453)
Twenty-sixth Report	Caring for Vulnerable Babies: The reorganisation of neonatal services in England	HC 390 (Cm 7453)
Twenty-seventh Report	DFID: Providing budget support to developing countries	HC 395 (Cm 7453)
Twenty-eighth Report	Government preparations for digital switchover	HC 416 (Cm 7453)
Twenty-ninth Report	A progress update in resolving the difficulties in administering the single payment scheme in England	HC 285 (Cm 7453)
Thirtieth Report	Management of large business Corporation Tax	HC 302
Thirty-first Report	Progress in Tackling Benefit Fraud	HC 323 (Cm 7453)
Thirty-second Report	Reducing the cost of complying with regulations: The delivery of the Administrative Burdens Reduction Programme, 2007	HC 363 (Cm 7453)
Thirty-third Report	Ministry of Defence: Major Projects Report 2007	HC 433 (Cm 7453)
Thirty-fourth Report	Increasing employment rates for ethnic minorities	HC 472 (Cm 7453)
Thirty-fifth Report	Housing Market Renewal: Pathfinders	HC 106 (Cm 7453)
Thirty-sixth Report	HM Treasury: Making Changes in Operational Projects	HC 332
Thirty-seventh Report	Ministry of Defence: Leaving the Services	HC 351 (Cm 7453)
Thirty-eighth Report	Nuclear Decommissioning Authority—Taking forward decommissioning	HC 370 (Cm 7453)

Thirty-ninth Report	Preparing to deliver the 14–19 education reforms in England	HC 413
Fortieth Report	Department of Environment, Food and Rural Affairs: Management of Expenditure	HC 447
Forty-first Report	Department of Health: NHS Pay Modernisation: New contracts for General Practice services in England	HC 463
Forty-second Report	Preparing for sporting success at the London 2012 Olympic and Paralympic Games and beyond	HC 477 (Cm 7453)
Forty-third Report	Managing financial resources to deliver better public services	HC 519
Forty-fourth Report	The roll-out of the Jobcentre Plus office network	HC 532
Forty-fifth Report	Reducing the risk of violent crime	HC 546
Forty-sixth Report	The procurement of the National Roads Telecommunications Services	HC 558
Fiftieth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 890 (Cm 7453)
First Special Report	The BBC's management of risk	HC 518 (Cm 7366)
Second Special Report	Evasion of Vehicle Excise Duty	HC 557 (Cm 7366)

Oral evidence

Taken before the Committee of Public Accounts

on Monday 12 May 2008

Members present

Mr Edward Leigh, in the Chair

Mr David Curry
Dr John Pugh

Mr Don Touhig

Mr Tim Burr, Comptroller and Auditor General, **Mr Ed Humpherson**, Assistant Comptroller and Auditor General, and **Mr James Robertson**, Director, National Audit Office, gave evidence.

Mr Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, gave evidence.

REPORT BY THE NATIONAL AUDIT OFFICE

THE PROCUREMENT OF THE NATIONAL ROADS TELECOMMUNICATIONS SERVICES

Witnesses: **Mr Archie Robertson**, Chief Executive, and **Mr David Bradbrook**, Contract Manager for the National Roads Telecommunications Services, Highways Agency, gave evidence.

Q1 Chairman: Welcome to the Committee of Public Accounts. I apologise for the late start. Today we are considering the Report of the Comptroller and Auditor General *The Procurement of the National Roads Telecommunications Services*. We welcome back to the Committee Mr Archie Robertson of the Highways Agency and also a delegation from the Accounts Chamber of the Russian Federation. Thank you for coming. Mr Robertson, you are leaving the agency soon, are you not?

Mr Robertson: I finish my term at the end of this month.

Q2 Chairman: Do you want to tell us what lessons you have learned from this and other procurements you have overseen that you can pass on to your successor with all the weight of your experience?

Mr Robertson: Just to pick this one, this is a very successful public-private partnership which has a bit of an angle inasmuch as it has a framework call-off contract which I think offers to others some lessons to learn. It has taken some time to get it through as the NAO points out, but it is probably the better for that. It is absolutely fundamental to what I and my successor try to do which is to continue to deliver a focus and improvement on the management of traffic rather than the narrow building of roads and maintenance about which we have spoken in the past. I think that in this Report there is quite a bit to commend the thoroughness with which it has been approached by some determined, not novel, thinking about getting things right. I believe that the term of 10½ years will be seen to be appropriate for this kind of PFI when often one hears that it entails the making of commitments for a very long time into the future. This is a technology PFI which is absolutely vital in order to use the capability of anything from a fault detection meter right through to active traffic management as we are currently

developing it and it stands to enable us to get benefits of anything up to £2.8 billion, which was in the business case.

Q3 Chairman: That is a very rosy picture, but I should like to press you a bit on the benefits of a PPP rather than traditional procurement. Presumably, you went down the PPP route because of worries about cost and time overruns, but that was exactly what you ended up with, was it not?

Mr Robertson: With every challenge we have to look at how we shall deliver it. The alternatives available to me are: to do it myself by hiring the people and buying the materials, but that is not the sort of agency we are; to embark on a series of contracts for construction and then operation and maintenance of the equipment, which is a set of options that falls within conventional procurement; or to look at whether a PPP-type solution is right in this case. The reason I think it is right, apart from what is shown in the numbers and the £30 million advantage, is that it is a solution that enables the technology risk to be borne by people who are knowledgeable about it and also enables private sector flexibility to be brought to this challenge which is relatively unusual for us.

Q4 Chairman: I always understood that the whole point of a PFI/PPP was that the public sector, albeit perhaps at greater cost, would have a degree of certainty. In this Committee we look at value for money. Why is it good value for money to have a procurement that takes five years, not two years, project costs that are nine times higher and adviser costs that are three times higher than you started with?

Mr Robertson: It is good value for money because when you take all of those issues together you get a solution which, when the risks are factored in, gives

you a better response than if you were doing the public sector comparator. That is exactly what this shows and what I expect to see demonstrated as the project rolls through.

Q5 Chairman: We do not necessarily accept that the public sector comparator is a true comparator, and if you read in particular paragraphs 2.33 to 2.35 of the Report you just increase the risk in the public sector comparator to come out with the right answer. We have seen this in previous PFIs and are very dubious about public sector comparators that appear, frankly, to be fixed against traditional procurement.

Mr Robertson: Having observed a number of other PFIs I can understand your scepticism particularly in cases where PFI enables a project to be taken off the balance sheet. This is the agency's 12th PFI; we are now working on our 13th, and all of our projects are on the balance sheet. The capital and resource funding has to be provided in the same way as if it were a conventional procurement. Therefore, I am able to make the assessment simply on the basis of the advantages and disadvantages of traditional procurement, if we can call it that—contracting—the flexibility I can achieve and the risks I can transfer to the private sector. The risks that are helpfully set out in the appendix to the Report of the National Audit Office are significant and real as far as concerns this comparison because there is no mysticism involving off-balance sheet treatment.

Q6 Chairman: I would have greater belief in that if it was not for the very interesting figs 16 and 17 on pages 28 and 29 of the Report. The left-hand page is what we were supposed to get: "The initial bid documents required the contractor to increase the fibre optic cable network by 278 kilometres in the first two years of the contract". We know that we did not get that. If we read across the page to fig 17 we see: "After the affordability review, the Agency focused on removing gaps in the core 'figure of 8'. . .", so under this scheme you ended up with 110, not 278, kilometres. If we look at the footnote on that page we see that under traditional procurement you installed 168 kilometres. Therefore, the PPP whose praises you have been singing for the past 10 minutes or so delivered you only 110 of the 278 kilometres it was supposed to provide and for the rest you had to rely on traditional procurement which you have just told me was so risky.

Mr Robertson: The kilometres are important but not significant in the sense that what really counts is what one puts down the cables and enables by providing this network. What is in the PFI that we are now progressing is a core addition of 110 kilometres to give us the core figure of eight network in illustration 17 and, associated with that, the framework document which enables us then to buy at fixed prices the additional parts of the network we will need in order to roll out the other services we are putting in, for example ramp-metering, active traffic

management, weather detection and safety incident detection. That is when this investment enables the benefits to be gained. There is no point in putting in all of that network ahead of the need for it.

Q7 Chairman: If we look at the top of page 53 we see helpfully set out in clear form how the procurement timetable progressively increased from 21 months to over five years. Further down the page we see how you appear to have spent more and more on advisers. If you were spending so much on advisers why could they not warn you earlier of the risks involved in this? What was going wrong? Surely, they should have told you that you could not afford the original project in the way it was devised. That is the point of having advisers.

Mr Robertson: It would have been great if they could have told us of two of the things we would have to deal with after we began the project. The meltdown in the telecommunications industry meant that the original vision that some income might arise from this became completely redundant overnight. The agency and government did not become exposed to that because the project was developed; nor were the advisers in a position to anticipate just what it was government would be looking for in terms of delivering the traffic services that we were asked to develop from 1998 culminating, most importantly, with the roll out of the traffic officer service from 2004. Therefore, the advisers could not have told us that. The advisers' budget was certainly more than had been anticipated because the problem we were trying to solve certainly changed during that time which was a risk in itself, but I believe that it has been managed positively and we have a very good project coming out of it.

Q8 Chairman: You have appeared before this Committee in the past. If you look at the front cover of this Report you see a picture of a motorway. You have hard-shoulder running, variable speed limits, speed cameras and variable signs. All of these are recommendations we have made to you in the past. But can you assure us that if we are to have better managed roads we will need fewer new roads and, therefore, we will get better value for the taxpayer?

Mr Robertson: Thank you for your encouragement in getting services rolled out as far as concerns our original report. They are indeed rolling out everything from high-occupancy vehicle lanes to everything that is on the front page, that is, ramp-metering and other detection systems beside. The government's strategy that I am implementing continues to be one that looks at construction where road capacity is already beyond its nameplate capacity and it is under severe pressure, like the M1 and M25. The second strand of that is exactly what we are talking about here, which is to make better use of the network, sweat the asset harder, as I still call it, and help people to move better. The third strand is still to introduce congestion pricing as a means of controlling demand at hot spots. That is not directly within my remit, but you will know from

12 May 2008 Highways Agency

the recent statement of the Secretary of State that she is progressing that and we are contributing to that strategy.

Q9 Mr Touhig: Mr Robertson, I see that you are married with three children. Do you sometimes do the weekly food shop?

Mr Robertson: I have been doing it recently, yes.

Q10 Mr Touhig: Therefore, you will know that when you buy in bulk you can purchase more cheaply?

Mr Robertson: I know that sometimes you can be induced to buy in bulk when you do not need to.

Q11 Mr Touhig: In that case why does it need the NAO to point out to you that the agency's bulk-buying power could have saved the public sector comparator between £4 million and £14 million?

Mr Robertson: This is important and it was offered to us by the NAO from an organisation called Mason, as I recall. I do worry a bit about bulk buying as far as the public sector is concerned. In a way it assumes that I have the budget from government which means I can go out and buy everything at the same time.

Q12 Mr Touhig: Page 27, paragraph 2.32 is pretty specific, is it not? The consultants engaged by the NAO "did, however, note that, for bulk order capital cost items, the Agency might have secured discounts that could have reduced the present value cost of the comparator by between £4 million and £14 million". You have agreed the Report and I take it you accept that?

Mr Robertson: I agree that it might have and that the benefit might have been as much as £14 million, but that would not have changed the conclusion in the simple arithmetic that the public sector comparator—

Q13 Mr Touhig: It would have reduced the difference between the PPP and the public sector comparator, would it not?

Mr Robertson: Absolutely. If we had been able to do the bulk buying, which is one of the things that the flexibility—

Q14 Mr Touhig: Are you suggesting that you could not have done that and so the consultants brought in by the NAO have got it wrong?

Mr Robertson: No.

Q15 Mr Touhig: It is in the Report and you have accepted it.

Mr Robertson: I think it is quite right because it is a speculative "might have reduced it by between £4 million and £14 million". To capture that I would have had to do the bulk buying which meant I would have had to find the money to do it, taking money away from my limited budgets for traffic management overall and investing in that compared with other things that I might have wanted to do. All of the things that we have talked about in the past in

terms of the technologies we can bring to bear have very high value for money, so there is no zero price here.

Q16 Mr Touhig: I understand the point you make, but, as the Chairman points out, the cost of this project has gone up nine times since it was first conceived, has it not? It seems to me that the whole reasoning of the agency for choosing PPP over the conventional route is not very robust. As we started the session this afternoon you praised the Report but I cannot see it; it just seems to me that you have not been very robust in saying why you wanted the PPP in the first place.

Mr Robertson: I explained that I had three options. If one leaves aside the option to do it myself on the basis that that is not the organisation we are set up to be, the simple choice is between contracting and PPP. With a scheme like this that is novel, that has come through a meltdown in telecommunications in 2001 and 2002 and where technology advances all the time I think that the public sector has to be very careful about engaging in the sorts of risks involved.

Q17 Mr Touhig: Let us look at the risks. The Report tells us that you factored £85 million into the public sector comparator which was 26% of the non-risk-adjusted figure. From where did that £85 million come, and why was it so high?

Mr Robertson: The £85 million is described by the National Audit Office in appendix 4, and we have agreed that. We are happy to go through the risks that we have allocated in that.

Q18 Mr Touhig: How did you work up to that figure? Why was it such a large figure, because it certainly had a final impact on whether you went the PPP or conventional route?

Mr Robertson: Since Mr David Bradbrook, the project manager, is sitting here I will invite him to give you some perspective on that. However, the risk as a percentage of this project works out at about 26% of the NPV which is not so far away from the sorts of risks we have experienced in the other PFIs we have done. They vary between 7% and 31% for what are largely roads projects of a lower category risk. Therefore, 26% is not unusual for PFIs at least as far as I have seen them.

Q19 Mr Touhig: It is a lot of money. You were against taking the risk and so you went down the PPP route and the cost dramatically escalated. You got into a mess right at the beginning. In 1999 the cost of this project was £90 million and it is now nine times that.

Mr Bradbrook: The cost of the contract went from £40 million to £345 million because the scope of the project changed. It started off as a very simple project to renew life-expired assets and to try lever some revenue off the market. By the time we got out to tender it had moved on from the feasibility study and was addressing our strategic needs and the needs of a 10-year plan that had been published since then including the traffic officer service that had come into being. We now required a network that needed

12 May 2008 Highways Agency

to have far greater levels of resilience, capacity and capability. The reason why the costing increased was that capability and capacity increased.

Q20 Mr Touhig: Did not the costs also increase because you did not foresee the extent to which meeting your very high quality standards meant that the tendering period would double from two to four years to start with? You got off to a pretty ropery start.

Mr Bradbrook: No. We were of the very firm belief that good preparation work upfront, coming up with a set of clear and unambiguous tender documents and contracts, would reduce the costs later on. We were always looking at the whole life costs. Although the consultancy fee increased three times, if you look at the overall cost of the contract from preferred bidder to award there was not one increase; indeed, it went down by £2 million. Even the NAO's own reports published last year said that typically PFI contracts increased by 17% after preferred bidder stage. That work upfront not only stopped the price increasing after preferred bidder stage.

Q21 Mr Touhig: Let us explore the work upfront. The tendering process doubled from two to four years?

Mr Bradbrook: Yes.

Q22 Mr Touhig: The cost of the tendering increased by 50% from £10 million to £15 million?

Mr Bradbrook: Yes.

Q23 Mr Touhig: We see from paragraph 2.4 that the bidders had concern about the validity of the data you gave them. You talk about all the work you did to get it right, but really what you said to the bidders was that they should come and invest in the project and gave them data that was not very reliable.

Mr Bradbrook: You are talking about one particular type of data which related to the existing assets. It was important for us to get as much of that together as possible because one of the key risks we were transferring was the asset condition.

Q24 Mr Touhig: But why were you unwilling to warrant the accuracy of the materials you were giving to the bidders?

Mr Bradbrook: Because it was a risk we were transferring. It would be inappropriate to warrant something for which they were taking the risk.

Q25 Mr Touhig: Is it any wonder then that you just ended up with two bidders? If I come along to bid for this project and you cannot guarantee the information you give me as the basis for my tender is it any wonder that you really do not have any competition at the end of it?

Mr Bradbrook: I think that for a contract of this size and complexity with very large bid costs to have two bidders is good. It compares favourably with the Airwave project which had a single bidder at a much

earlier stage. We obtained really good competition right up to the point of announcing the preferred bidder.

Q26 Mr Touhig: So far I think we have established that you did not have a very robust case for going down the PPP line. The costs went out of control and you were giving those who were bidding for the contract information on which you said they could not rely. It sounds a bit absurd, does it not? Here is an agency that knows about road telecommunications; it has a wealth of expertise. It does not want to do the project itself and so it goes off to a PPP; it will not promise the bidders that the information it gives is accurate and so some drop out. Therefore, one does not really have competition at the end of the day for this work?

Mr Robertson: As Mr Bradbrook said, we definitely did have competition as far as that was concerned. We took two consortia beyond the preferred bidder stage and so we were able to leverage on one side of that contract against that competition and on the other side leverage against the public sector comparator. We knew for how much we could do it ourselves.

Q27 Mr Touhig: In June 2002 the agency realised that third-party revenues which would make the PPP better value for money would not materialise. Did that not provide any warnings for you? Were you then certain that you should be going along this route?

Mr Robertson: Absolutely, and that was one of the two principal reasons why the objective of the procurement at that point moved away from what it had been originally, namely something that was to be an infill of the telecommunications network accompanied by the opportunity to realise third-party revenues. In 2001 and 2002 the telecommunications sector went into a collapse for three particular reasons. First, telecommunication entities of government had been sold off and that was accompanied by deregulation. That raised all sorts of expectations about the telecommunications age. Second, the technology itself advanced significantly so that what people previously had thought was a restricted asset suddenly became something akin to a free good.

Q28 Mr Touhig: I noticed that you go through the KHHD consortium. Are you happy that they are value for money? You pay them £¼ million a month.

Mr Robertson: Yes.

Q29 Mr Touhig: I would not be too sure of that. There are only two men overseeing this project. How many people does KHHD have overseeing this project?

Mr Robertson: There are two, one of whom is here, known to us as the two Davids overseeing this project. One David was apparently enough to slay Goliath, so two might have been considered overkill in this case.

12 May 2008 Highways Agency

Q30 Mr Touhig: Paragraph 3.7 of the Report says: “The Agency’s ability to manage effectively the cost of KHHD, which earned its fees on an hours worked basis, was limited by the size of the Agency’s team. . .” They are running rings around you, are they not?

Mr Robertson: There were two people working through this project who I think have done a splendid job. In addition, at a later stage we boosted the size of the team in order to help them work. They always had the support and advice of our PFI advisers and Treasury advisers and have always been working with the accounts and finance team of the Highways Agency, so all of the invoices could be checked.

Q31 Mr Touhig: How many people from KHHD are working on this project? You have two.

Mr Bradbrook: Obviously, it depends on the point in the procurement cycle, but at the peak when we had lawyers and accountants involved it was probably of the order of 15.

Q32 Mr Touhig: They had 15 to your two?

Mr Bradbrook: As I said before, their cost would be paid for in a stroke by not increasing the price beyond preferred bidder stage and not having any claims whatsoever in the first two years.

Q33 Mr Touhig: But the point I am trying to establish is: are you satisfied that your two people against their 15 are keeping on top of this work? Paragraph 3.7 of the Report refers to “the considerable volume of material prepared by KHHD and the diverse geographical spread of the team of its advisers”. That is clearly having an impact on the ability of your two men to do their job.

Mr Robertson: I think these people did a good job.

Q34 Mr Touhig: Not if you look at what is said here.

Mr Robertson: Looking back at it now, if we were doing it again we would certainly put in more resources up front.

Q35 Mr Touhig: As an aficionado of *Yes, Minister* and a former minister myself I know that the best trick in the world is just to sink people under paperwork. Looking at this Report, it seems to me that that is what KHHD is doing to your two people; they are sinking under paperwork and are not really able to manage this project in the way it ought to be.

Mr Robertson: I think that is an interpretation of the Report. I accept that the vulnerability was there, but in our internal audit checks we have not seen any evidence that this team, albeit with a small core and with the support of the rest of the agency, did other than what I consider to be a very good job.

Q36 Mr Touhig: It just seems to me that the more we go through the Report the more it highlights the failures of your agency. Were you the agency that also invented the hotline for cones back in the days of John Major?

Mr Robertson: I believe that was a political inspiration, not an agency one.

Q37 Chairman: As to KHHD, why was there not some incentive scheme imposed on it to make it manage within budgets?

Mr Bradbrook: Initially, in the feasibility study we did it for a fixed price. Because we were not committed to follow the recommendations of the feasibility study it was inappropriate to set fixed prices in their tender for the subsequent phases, but once we had started the procurement process to control prices we wrote a project initiation document and various scoping documents for each of the strands of work. From those we produced task allocation forms in which each of the consultant’s time was allocated.

Q38 Chairman: That is all very interesting but you have not answered my question which is dealt with in paragraph 3.8: “In practice, there were no incentives, such as task performance bonuses/ deductions, in KHHD’s contract. . .” I want to know why there was not an incentive scheme.

Mr Robertson: There were not incentive schemes there because we were looking to make the decisions and not have them adjusted by an adviser who was acting up front and would not be there at the end of the day.

Chairman: That is a fair point.

Q39 Mr Curry: Mr Robertson, I was thinking of you last Friday evening as I was travelling down the A1. I go up and down that road most weekends and I know it pretty intimately. I was thinking that it made life somewhat easier but you seemed to be removing all the roundabouts from the A1, no doubt at some gigantic cost, even though over 20 years I have never been held up at any of them, but it makes for a smoother ride. I then saw one of your overhead signs which said there were severe delays after—I think it was—the A428. After another mile I saw another sign which said the same thing. Two miles further on there were signs which repeated the message. I did not have the faintest idea where the A428 is, so your information was entirely useless to me. Had it said that there were severe delays after the Peterborough or Welwyn Garden City turnoff, or whatever it happened to be, that would have been helpful. Had it then gone on to say what I should do about it, it would have been seriously useful. The fact of the matter is that I know I use the A14 to access the A1 and I know where I get off the A1, but I do not have the faintest idea of the names, numbers, colours or sex of any of the roads between those two points. Why do you not give me some information that is useful to me as a motorist?

Mr Robertson: First, thank you for pointing out the developments we are undertaking on the roundabouts on the A1. The roundabouts and the junctions of the A1 with which you will also be familiar have a poor safety record and we are taking them out for safety reasons rather than for reasons of congestion.

 12 May 2008 Highways Agency

Q40 Mr Curry: There is certainly an economic reason as well because I can now cruise at a sensible speed instead of changing gear, stopping, starting and cursing at lorry drivers.

Mr Robertson: The fascinating thing about road transport and motorcar transport, which I assume you use, is that unlike rail, ships and airlines you make all the decisions about when you travel, what route you take, whether you take somebody with you and possibly at what speed you will travel. Therefore, I fully accept that in order to enable the networks to work well I have to provide you with good information. We now believe that we have most of the tolls to give you good information. The best information is that which you can get as early as possible. Therefore, if you have not already done it I would encourage you to check either on the radio, or website if it is available to you, before you set out on those long journeys whether there are delays because the closer you get to an incident the less flexibility there is for you to do something about it.

Q41 Mr Curry: I accept all that.

Mr Robertson: To come to the specific point that it does not help you too much to know that it is the A428, I would like to deal with this and be able to give every one of the 18 million motorists, plus whoever is travelling from abroad, the information that would help them. But there are quite a number of people who are familiar with the A428, to take that example. There are also quite a number of people who are familiar with the Peterborough turnoff, but unless I give them both pieces of information I cannot get to everybody.

Q42 Mr Curry: But you have a series of cameras and so you could give different information from each camera, could you not? The first one can say there is severe delay after the A428; the next one can say there is severe delay after the Peterborough turnoff. You can say there are severe delays 20 or 50 miles ahead which would give an indication of how far ahead the problem was. You could then provide a suggested alternative or a diversion, for example that I should turn left at the next exit.

Mr Robertson: We would do that had we identified that there was a strategic diversion that we wanted you to take rather than the fact that you would experience some delay and might therefore want to leave the route.

Q43 Mr Curry: When I see that am I supposed to pull over to the hard shoulder and pick up my atlas to find out where the road is. Do I open the atlas on the front seat as I am driving in order to spot whether or not I ought to come off the A1?

Mr Robertson: You have to decide whether or not you have the time to sit out a delay or come off and take an alternative route.

Q44 Mr Curry: That is why it is so helpful to know where it is.

Mr Robertson: That is why I start off by saying that the person who is making most of the decisions about travel on a strategic road is not me but you.

Q45 Mr Curry: Who decides what is put on the screen?

Mr Robertson: Most of the information that goes on the screen is predetermined in order that our operatives can put it up as soon as they know there is a problem, which will normally be a crash of some kind.

Q46 Mr Curry: If there is an accident and the road is closed, fair enough; if it is a crash so many miles ahead you know you have to do something about it. The other suspicion one has is that all of this has happened quite a long time ago and the cameras are very late in bringing one up to date, so one tends to take the risk of staying on the route thinking that the signs are probably a couple of hours out of date and it has been cleared up ages ago.

Mr Robertson: That is something to which I am very sensitive because it certainly was an issue when I came to the agency. I decided that it would be a long haul to try to pull people to another place, but you will notice that there are now cameras on the network that tell you the time to the next junction when it is running clear. We are getting good feedback from customers as to the accuracy of those and therefore users are beginning to accept that the information on the screens is something they can trust and rely on.

Q47 Mr Curry: That is interesting information and it is the equivalent to the French sign which says that traffic is fluid, meaning it is moving freely, but when you see a sign saying "Grantham turnoff 56 miles: 60 minutes", the sort of reaction is, "Well, I can beat that with a bit of luck".

Mr Robertson: I will have a word with the local constabulary!

Q48 Mr Curry: I shall be coming to that as well in a minute. One then has irritating signs saying, "Why not take a break?" or something, which is rather like being on the tube when it is crowded and somebody on the platform saying, "Move right into the body of the car". You just want to strangle the individual at that point. Is it not possible to put up more than a single piece of information? Can you not express that information in two or three different ways so it is helpful to the motorist?

Mr Robertson: In short the answer is yes, particularly if there are a number of signs in sequence so that we do not overload the information we are trying to put out.

Q49 Mr Curry: You mentioned speed cameras. Average speed cameras on overhead gantries are making their appearance. Are they a preliminary for road pricing?

Mr Robertson: No.

Q50 Mr Curry: What has been the effectiveness of average speed cameras as opposed to normal speed cameras in respect of which everybody hits the brakes as they approach them and then accelerates as they move away from them?

12 May 2008 Highways Agency

Mr Robertson: We are now using average speed cameras quite extensively in road works.

Q51 Mr Curry: There is a big stretch of the A14 that has average speed cameras?

Mr Robertson: We also use them in particularly difficult areas like the A14. The experience is good. People are aware of how they have to behave when they come across average speed cameras and they are proving to be a very effective way to get people to slow down and stay at that speed once they are there. As a matter of interest, it is also one of the vital pieces of technology that depends on the National Roads Telecommunications Services in order for it to work properly.

Q52 Mr Curry: Are your cameras capable of detecting people using mobile phones in cars?

Mr Robertson: No.

Q53 Mr Curry: I am sure you are aware that this is the most widely broken law in the country.

Mr Robertson: I certainly observe it whenever I walk around town, so that is true, but our cameras are not capable of that and they are not designed for it. Our cameras are not used for enforcement. If we are asked by the police for information about a specific vehicle or incident we will provide it.

Q54 Mr Curry: You mean other than speed cameras specifically, that is, those that monitor traffic flow?

Mr Robertson: The speed cameras are operated by the speed camera partnerships of which the agency is a part. Obviously, that is there for enforcement. I think we have over 1,500 cameras in the network—CCTV and traffic detection—which are there for traffic management purposes only, not enforcement. The police have separate cameras which they use for enforcement, but I am not aware that they are using them for monitoring the illegal use of mobile phones.

Q55 Mr Curry: What is the experience on the continent of analogous systems and the information that they provide?

Mr Robertson: Are you talking generally about information?

Q56 Mr Curry: Yes. Quite often in these reports we are told how other people do it. I am thinking about the value of the information to the user rather than the economic benefit. The main argument in favour of this is presumably the economic benefit of traffic flowing at a more consistent pace and therefore using less fuel.

Mr Robertson: Certainly, tools like controlled motorway which you see round the M25 where we set the speed of the traffic at busy times in order to keep it travelling smoothly rather than stopping and starting are used elsewhere. As to active traffic management and the use of hard shoulders, that is employed on a very limited basis elsewhere. The signs that tell you how long it will take to get to the next junction are used elsewhere but we are the only place where it is done nationwide.

Q57 Mr Curry: Had I been coming down that road on Saturday afternoon I would have quite liked to know what was happening in the Manchester United v Wigan match. It does not divert my attention any more than a sign that says “Grantham 56 miles: 60 minutes”, does it?

Mr Robertson: There cannot be many cars left in this country that do not have a radio.

Q58 Mr Curry: But sometimes motorists have with them their wives who are not very keen on football.

Mr Robertson: You have my sympathy.

Q59 Dr Pugh: Am I right in thinking that £345 million is the cost of the installation and maintenance of the project?

Mr Robertson: That was the basis on which it was done.

Mr Bradbrook: That is the cost of installation, maintenance and support and the whole life running of the network for the next 10½ years.

Q60 Dr Pugh: That was a lot more than you had originally estimated. Obviously, you had certain goals in mind apart from simply informing people about things they might like to know: you wished to improve traffic flows, make people travel more sensibly, take more appropriate routes and so on. You just mentioned the radio. I have a very impertinent radio that tells me, whether or not I want it, when I approach traffic obstructions. I have not found the switch to turn it off. Lots of other cars have that. There are lots of ways in which we can find out about traffic flows and so on. You have spent a lot of money to provide us with information and therefore in some sense it must be justified and there must be results we can see. What are the results that we can all see now?

Mr Robertson: If you look at table 19 on pages 36 to 39 you will see a list of some of the products that are enabled by the network. They are a combination of capabilities by which information in one form or another is provided.

Q61 Dr Pugh: I want to know the benefits, generally speaking, either to the motorist or the government. Having done it, how is the world better for me and Mr Curry?

Mr Robertson: What we are providing is greater reliability of journey and improved safety. We have a target to reduce safety incidents to 2001 levels by 2010.

Q62 Dr Pugh: You have done that?

Mr Robertson: We are well on track to do that.

Q63 Dr Pugh: You are telling me there is a reduction in accidents. Telling me there are obstacles ahead means that I slow down and therefore I do not run into the back of another vehicle?

Mr Robertson: The motorway incident detection and automatic signalling system (MIDAS) that detects a queue and tells you by sign that you are about to run into congestion cannot be done fast

12 May 2008 Highways Agency

enough by radio. There may well be other things you can do by radio, but that is a major contribution to safety.

Q64 Dr Pugh: In terms of people altering their journeys, one sees signs saying "Junction 14 long delays", for example. It appears to me that most motorists press on regardless on the assumption it will change by the time they get to that point, or they do not have many options. Do you detect a change of behaviour on the part of the average motorway motorist that we can all talk about and point to as a success?

Mr Robertson: We have motorists who are educated to use planning tools and motorists who are not so educated. The tools themselves are there now, but there is not sufficient use made of them which is why the principal aspect of our information strategy is not to roll out further tools but to get more people to use what is already there, whether it is to check the website, CCTV images, radio services or the signs.

Q65 Dr Pugh: Is it fair to say that you are slightly disappointed by the extent to which the average motorist has made use of this marvellous box of tools you have given him?

Mr Robertson: I am not disappointed by it. It is not surprising given I understand the character of the motorist who wishes to press on in exactly the same way that you do, but I think there is a big prize to get people to think about the journey they are about to take particularly if it is a long one.

Q66 Dr Pugh: You have encouraged reflection on this?

Mr Robertson: If we can do that it will also help to provide an even more robust market for the private sector which at the end of the day has a bigger role to play in the dissemination of information for motorists. The core of the Highways Agency's offer has to be that it provides good quality, reliable data.

Q67 Dr Pugh: To go back to the overruns in cost, in your earlier answers you appeared to be stressing two matters. One was the collapse of the telecommunications market which you suggested had a detrimental effect on cost overrun.

Mr Robertson: The telecommunications market meant that there was no opportunity to look for third-party revenue for other things and other users.

Q68 Dr Pugh: You did not mean that you would have got it cheaper? When a market collapses one normally assumes that products become cheaper and people are anxious to shift them. If they cannot shift them elsewhere prices fall, do they not?

Mr Bradbrook: You are alluding to the fact that technology prices in general become cheaper with the passage of time. That is one of the matters that we have taken into account in the contract. We have a bi-annual technology review and any reductions in the cost of the technology are shared.

Q69 Dr Pugh: What have those savings amounted to so far?

Mr Bradbrook: I believe that in real terms at the end of the first two years the savings are 4%.

Q70 Dr Pugh: Have these been offset by, as it were, ambition within the project because you also mentioned new technology coming along, that is, various gadgets, tools and add-ons that had not previously been thought of.

Mr Robertson: Basically, we have the tools that we need, but we need more use of the tools and more penetration of the services, if you like. One of the reasons we went for a 10½-year contract, or 10-year plus a half-year switchover, was that this was a fast-moving market. As you mention, things like satnavs are improving in capability and coming down in cost very quickly. They are now available for people to use personally as well as in cars. I am pretty sure that the pace of change which the private sector is driving through competition will be of benefit to the road user in a way that the public sector and Highways Agency should enable with good data but in which it should not compete.

Q71 Dr Pugh: You made a 4% saving on the basis of the bi-annual technology reviews. Do you have any idea what profits your private partner made over this period?

Mr Bradbrook: I do not know what their profits are but I am sure they will be published in their annual accounts. What we do know is that the cost of the call-off items is less than we were paying under conventional procurement, so we are assured good value for money.

Q72 Dr Pugh: Have you imposed any penalties over the course of the contract for the private contractor not delivering on time?

Mr Bradbrook: Yes, we have. There are about three penalty regimes. One is for loss of availability of the service. This is a very simple regime with a fixed amount deducted for each service that is unavailable, and in the seven months since the new network was completed there have been deductions of the order of £1.2 million for lost services. Some deductions were also made due to delay in delivery of some of the minor items on completion of the two-year build phase documents and things like that.

Q73 Dr Pugh: Mr Robertson, at the start you mentioned that a PPP contract was favoured because of the real advantages of the flexibilities that it offered. What are these flexibilities?

Mr Robertson: One flexibility is that because at the margin the PFI company can go and borrow more money to offset a risk when I am working within a fixed budget all the time. It can do things to set off risk that would not be easily available to me. I think there are some instances where they have invested ahead of when we would have done it ourselves.

Mr Bradbrook: One of the big advantages is the outsourcing or transfer of the technology risk. One matter that is acknowledged by NAO's consultant Mason is that the national network now installed is a leading edge solution. In taking a risk on putting something in that is future-proof and able to be very

12 May 2008 Highways Agency

flexible, resilient and capable of easy change if the level of usage increases it has paid a price in that it has had some teething problems. In all those cases it has had to pick up the cost of resolving the problems having taken on that risk. But the solution from a technical point of view is significantly more flexible than the proposed public sector solution.

Q74 Dr Pugh: You believe that that could not be done under a standard public sector procurement contract with an amenable and adaptable private contractor?

Mr Bradbrook: I am absolutely convinced of that. We took a far more risk-averse approach in our illustrative solution which we then built into a public sector comparator.

Chairman: Mr Robertson, thank you very much for your presence and your evidence. I wish you well in your retirement or next role. Obviously, the Committee is concerned about value for money. Undoubtedly, some aspects of this project did go well in terms of transferring risk, but equally we are concerned about the amount of money you spent on advisers and the length of the procurement process. No doubt we will reflect on this in our report.