Lane rental contracts

(*Source:* National Audit Office, 1991. Management of road maintenance. London: HM Stationery Office.)

Lane rental contracts were introduced in the United Kingdom by the Department of Transport in 1984 for major schemes to speed up maintenance works on the busier roads and reduce delays to road users. The basic contract arrangement is for a bonus to be paid if the contractor finishes the works before the contract completion date, but a charge (at the same rate as the bonus) imposed if the contractor is late. Bonuses paid on individual schemes have ranged from £5 000 (approx. $8 000) to £1 million (approx. $1.6 million). Both bonus and charge are based upon an assessment of the economic costs to road users of delay caused by the works. Two variant systems, continuous site rental and lane-by-lane rental, were introduce one year after the first introduction. The basic types of lane rental contracts are shown in Box 1.

Box 1 Types of lane rental contracts

- *Bonus/rental charge* - the contractor
  - tenders a price for the work and a time of completion
  - receives a bonus or pays a charge according to the number of days that work is completed ahead of or after the contract period
- *Continuous site rental* - the contractor is charged a daily rental for each day that there is possession of the site
- *Lane-by-lane rental* - the contractor is charged according to the number of lanes occupied

The form of contract used is a modified version of the standard ICE contract, where liquidated damages are replaced by a the daily charge for late completion of work related to the cost of road users

In setting the appropriate level of bonuses and charges, the Department considers that it would be too costly to pay bonuses at the full daily delay rate and that a lower rate would still give adequate incentives. They also took into account the probability that charges based on the full daily rate might not be recoverable, or might deter companies from tendering. It was, therefore, decided that the level of bonus should normally be set to cover 50 per cent of the daily delay cost plus 100 per cent of the daily site supervision cost. Later, the Department limited the daily bonus/charge rates to a minimum of £2 000 and a maximum of £25 000 (approx. in the range of $3 000-$40 000).

Between 1984 and 1989, the Department of Transport in the United Kingdom let about 100 lane rental contracts worth £250 million (approx $400 million). It is estimated that these contracts saved more than 2 400 days of lane closures, representing and economic saving of some £50 million (approx. $80 million), at an additional cost of £8 million (approx $13 million) paid in bonuses. Although there is some debate about the actual size of the benefits, detailed comparison of contracts in 1987-88 estimated that the average rate of spend on a lane rental contracts per week was 81 per cent higher than that for a conventional contract; confirming that lane rental contract have speeded up work substantially and reduced delays to traffic.

Although bonuses to the value of £8 million have been paid for beating the contractual completion dates, only one contractor has incurred a charge under any lane rental contracts let so far (1991). Although an average saving of 17 per cent had been achieved on lane rental tender periods, most of the contracts concerned had been granted extensions to the original contract times. The average extension was 16 days, representing an extension of some 21 per cent over the original times. The grounds for these extensions were mainly extra works commissioned by the client, and allowances for bad weather. The Department of Transport consider that the fact that only one contractor had to pay charges for late completion confirms the success of the lane rental incentives, although the National Audit Office have stressed the need to reduce contract amendments and time extensions to maintain the discipline of the charge arrangements.