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Dear Graham

ORR's Holding National Highways to Account and Expectations of National Highways for the Third Road Period (RP3)

Thank you for the recent correspondence in relation to both ORR's holding National Highways to account until the publication of the Delivery Plan and your expectations of National Highways in the Third Road Period.

We recognise the need to work closely on this to ensure best value for customers and taxpayers, and I look forward to our meeting on the 3 September where we can discuss this further.

In advance of our meeting, I wanted to set out how we are strengthening our governance arrangements, particularly within the Renewals and Targeted Funds programmes, as well as outline some areas where we would like to work with you to ensure we get the right balance so we can both improve transparency and reduce the regulatory burden.

ORR's Expectations of National Highways for the Third Road Period (RP3)

We have already made changes to our reporting and governance arrangements to reflect the balance of focus of RIS3 and to respond to many of the requests set out in the letter.

In particular, I wanted to highlight some of the work already underway, which recognises the points raised in your letter, and we will provide more detail on when we meet in early September.

- Strengthening governance and oversight arrangements across our delivery programmes especially on large renewals by:
 - Revising our Large Renewals internal programme reporting in place, including cost, schedule, governance and stakeholder.
 - Updating and improving our Targeted Funds governance structure to ensure Executive oversight and inclusion of all Fund Sponsors.
 - Working closely with your team on an enhanced approach to efficiency reporting. We recently held a meeting to take the team through a skeleton proposal of the plan and timeline for sharing information ahead of the end of September date.
- Maintaining clear and auditable records of investment and funding decisions at a suitable level of disaggregation across all the capital commitment areas of RIS3.
 - Reinvigorated the monthly Operational Performance Review meeting to ensure decisions are discussed, recorded and formally minuted.

- Sharing of Targeted Funds Business Case Summaries with ORR, to demonstrate their progression through the relevant Investment Decision Committees.
 - Clear escalation route embedded from the Large Renewals Programme Board to the Monthly Operations Performance Review meeting for decision.
- Demonstrating how risks to cost, schedule and delivery are identified, assessed and managed when reporting its progress on its capital commitments.
 - Proactive flagging of risks as part of the monthly Operations Performance Review.
 - Large Renewals reporting by scheme and programme, including improved and revised OMR reporting to be rolled out from Q1, which will highlight performance, risks/issues and trends by asset class.
 - In Targeted Funds, a monthly Fund Sponsor meeting for cross portfolio review, membership of the Investment Decision Committee Panel extended to include the CFO, CCSO and CDIO.
- Demonstrating how efficiency, value for money and impacts on road users are considered in decision-making.
 - Large Renewals deep dives, with the options for decisions looking at cost, performance and impact.
 - Introduction of Road User & Community Impact assessment, Customer Screening process (in development) and the addition of 'customer' to Investment Decision Committee papers.
- Improving the quality of efficiency evidence reporting.
 - Enhanced use of unit cost movement across delivery activities, building on work previously in the enhancement areas and building out the unit cost information on renewal assets classes.
 - Developing proposals for the maturity assessment of efficiency forecasting, allowing better visibility and greater intelligence on the forecasting of efficiency outturn position.
- Ensuring our internal arrangements support compliance with licence conditions 4.2 and 5.12.
 - Through our Licence Self Assurance processes, we gather evidence of activities listed above to demonstrate how we are exercising our functions in a manner best calculated to effectively operate the network, in accordance with Licence condition 4.2 and how we demonstrate efficiency and value for money, in compliance with Licence condition 5.12.

We look forward to discussing these further at the September meeting and agreeing any other actions required to meet the expectations in these areas.

Holding National Highways to Account

We welcome the joint work on the Monitoring Reporting Guidelines and are pleased that ORR is committed to reducing administrative burden from its monitoring and regulation by 25% in line with HMT guidelines. We are supportive of changes which increase predictability and which allow us to use our resources as efficiently as possible, focusing on information that already exists.

The Monitoring and Reporting Guidelines for RIS3 set out an increased level of detail in reporting when compared to RIS2, and that we demonstrate effective governance, analysis and decision making where programme costs, schedules or network needs change. Taken together these changes risk increasing the regulatory burden rather than reducing it, and so we would be keen to work together to ensure these changes are adopted in a targeted and proportionate way.

In practice, much of our administrative burden comes from large numbers of additional queries raised following the provision of regular reporting. If the level of these queries continues along with the additional reporting requirements, our concern is that the burden will increase over the 5 years. We believe the additional detail should enable greater self-assurance by National Highways and would like to work with your team to ensure this reduces the administrative burden from the monitoring and regulation of National Highways.

We would also like to agree how we can best demonstrate our effective governance where programme costs, schedules or network needs change to ORR in a proportionate way. We believe it is proportionate that this should focus on where these changes have impacts on our public commitments. It is important to recognise that our programmes and network needs will change and as an organisation, we need to be agile enough to respond to that without putting undue regulatory burden across the organisation.

We are an organisation that continuously strives to improve, as we hope ORR would recognise. We would welcome the opportunity to work with you on this to ensure that the queries received as part of the quarterly reporting cycles remain targeted.

I will keep you updated on progress on the above actions and provide an update on progress at our meeting on 3 September. I'd welcome any other thoughts you may have before then so we can continue to progress our work together.

Yours sincerely

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Chief Customer & Strategy Officer

Email:

CC – Kate Walters – Department for Transport