Holding the strategic highways company to account

2. Routine monitoring and assessment

Introduction

2.1 The approach set out in this chapter reflects our cognisance of the need to minimise administrative burden on National Highways. The provision of regular reporting to us is less administratively burdensome than responding to supplementary requests for information given its predictability and standard formatting and can be automated. The efficacy of this approach depends on the quality and timeliness of the data that the company provides and the richness of the commentary supporting it, to pre-empt the need for us to make supplementary requests as part of routine monitoring. Our requirements will be further set out in our Monitoring Reporting Guidelines (MRG) (paragraph 2.9(b)).

How we undertake our role

2.2 We are forward-looking in how we monitor National Highways' performance, delivery and efficiency. By engaging early and constructively, we aim to identify potential concerns early and resolve them to minimise impacts on road users and minimise inefficient spend.

2.3 On a routine, day-to-day basis, the work we undertake in furtherance of our duties includes, but is not limited to:

- analysing the regular reporting provided by National Highways about its performance and delivery;

- requiring National Highways to respond to data and information requests;
- regularly meeting with National Highways to probe its performance and delivery, including site visits; and
- gaining intelligence about National Highways' performance and delivery from stakeholders.

These activities alert us to whether any aspects of what National Highways has committed to deliver in the RIS and/or SD&G are at risk and whether it and/or we may need to take action to bring it back on track. This can include any of the activities set out in chapter 3.

2.4 The remainder of this chapter sets out what we require to undertake our routine monitoring and assessment effectively and the processes and reporting that form a key part of the work.

Building and maintaining relationships

2.5 Paragraphs 1.17-1.28 explain the importance of the relationships between the key parties to Roads Reform to ensure that everyone is effectively undertaking their roles to deliver better outcomes for road users, communities, taxpayers and the wider public.

2.6 In addition, to allow us to assess National Highways' performance and delivery in the round we gather information from a range of sources, including talking to key stakeholders and members of the supply chain. This helps us understand issues and risks to the company in delivering the RIS and/or complying with SD&G.

2.7 When we review National Highways' plans for future delivery, we consider the extent to which it has sought and responded to the views of road users, including the user priorities identified by Transport Focus' research, and those affected by the SRN. Our advice to the Secretary of State on future RIS development considers stakeholder priorities.

Data and information

Requirements

2.8 We require a range of data and information to understand National Highways' performance and delivery. This enables us to effectively fulfil our statutory duties on behalf of road users, taxpayers and communities. We endeavour to ensure that the company is not unduly burdened with unnecessary reporting requirements or excessive requests for data and information. We do this by ensuring that our requirements are clearly linked to our role, as set out in the Act

2.9 Wherever possible, we gather information from National Highways' internal business management information and do not ask the company to create bespoke data for us. This is both to minimise burden on the company and so that we can understand the information the company uses itself to manage its business. Our approach also reflects the fact that providing regular reporting tends to be less administratively burdensome than responding to requests for information (RFIs). We therefore regularly challenge ourselves – at minimum at the start of every road period – on the data and information we require from the company to fulfil our statutory role and what the most efficient means of providing this is. Most of this is provided in the following:

a. **an annual delivery plan** that National Highways submits to the Secretary of State and should publish at the start of each financial year, setting out its projections of expenditure and output delivery for the year ahead and, where relevant, the remainder of the road period;
b. **the annual performance monitoring statements (PMS)** published following the financial year-end. At the start of every road period, we issue to National Highways monitoring reporting guidelines (MRG). These set out the regular reporting we expect the company to provide to us (conditions 7.1 and 7.2 of its licence).
   We also issue PMS templates to the company in which we expect it to provide this reporting. The PMS provide the detailed information required to carry out a full review of the company's performance, delivery and efficiency during the previous financial year and, where requested, over the road period to date. It also provides information required for us to assess the company's compliance with SD&G. The statements include narrative to explain the company's outturn performance, delivery and efficiency; and
c. **regular updates** on in-year performance, delivery, efficiency and licence compliance self-assurance that provide an early indication of whether delivery of the RIS and/or compliance with SD&G may be at risk.

2.10 In addition to regular reporting, we gather information on specific areas of concern and intelligence through engagement with National Highways and its stakeholders. This could include, for example, requesting more detailed information on user satisfaction (and the user experience) from Transport Focus on either a regular or an ad hoc basis. Where we have identified specific risks or concerns that merit further inquiry, we may require bespoke data and information so that we can fully understand the matter.

Quality and assurance

2.11 We depend on National Highways providing us with good quality data and information. We expect the company to continually improve the quality and breadth of the data it collects so that it matures as a data manager and better understands its performance, delivery and efficiency. This should also support the company's decision making and its ability to evidence this to us and to the department. Ultimately, improvements in the quality of its data and reporting should result in better outcomes for the SRN, its users and taxpayers.

2.12 All the data and information that National Highways provides to us should be subject to an appropriate level of quality assurance. Our expectations regarding the PMS are set out in the MRG. We expect other information that the company reports to us to be subject to a level of assurance that is appropriate to the circumstances. For example, we may expect it to share information or data with us in draft form where it facilitates a timelier understanding of performance and/or delivery. We have a data sharing agreement with the company that underpins this expectation.

2.13 We expect National Highways to proactively notify ORR of any weakness or inconsistency in data sets in a timely way, with an explanation of why this exists, what if any impact it has had or is having and how the company has rectified it or is planning to do so.

2.14 We may also test National Highways' data quality and its processes for assuring data through targeted reviews conducted by ourselves or by third party independent consultants that we appoint for that purpose.

Our processes and reporting

2.15 In assessing National Highways' performance and delivery it is important to have a clear understanding of the baseline against which it is being assessed. That means being clear up front (that is, ideally before the start of the road period) about the total level of funding that is available, the assumptions underpinning the funding and the disaggregation of the funding (i.e. the opening baseline assumptions). It also means being clear about what should be delivered with the funding. This allows for robust, evidence-based monitoring and assessment, avoids confusion and our need to make supplementary requests for information, minimising burden on the company.

2.16 Once the RIS is set, a reason for altering it may be identified. The department can decide to formally change the RIS or SD&G (as appropriate) to alter the commitment originally agreed. We expect National Highways to provide evidence to support any proposal for change. Based on that evidence, we will advise the department as to the validity of a change to the RIS. We hold the company to account to deliver the revised commitment, as formally changed by the Secretary of State, and report publicly against that revised position.

Analysing non-financial performance and delivery

2.17 Our routine monitoring and assessment of non-financial performance and delivery seeks to understand:

a. the reasons for variances between actual performance and delivery against the targets and/or plans, and the reasons for any changes to plans;
b. whether National Highways is compliant with the relevant conditions of its licence; and
c. concerns and risks identified through our routine monitoring, and/or those raised by National Highways or other stakeholders.

2.18 We routinely monitor National Highways' maintenance and renewals works at a programme level. This means that we seek to understand whether the company is delivering a robust programme of maintenance and renewals works in a timely and efficient way. We report on the company's performance and delivery proportionally in the round rather than committing resources to monitoring individual schemes. We focus on the quality and comprehensiveness of the company's strategies and plans and key measures of output to form our view of its performance and delivery.

2.19 We routinely monitor National Highways' enhancements and large renewals schemes programmes in two ways:

a. through high-level metrics, to assess delivery at a programme level; and
b. by looking at high-level indicators for individual schemes to understand their status, risks, cost position and schedule performance.

2.20 Whilst we routinely monitor individual enhancements and large renewals schemes, we do not primarily hold National Highways to account for delivery on a scheme-by-scheme basis across its entire capital portfolio, for example small renewals schemes. Our proportionate approach is to focus on systemic and significant issues by monitoring trends in delivery. However, we recognise that individual schemes can potentially have a material impact on road users and other stakeholders. Given this, by exception we may scrutinise delivery performance, for example significant cost or schedule changes, to ensure that the company is complying with the RIS, SD&G and as its own processes and procedures.

2.21 National Highways' reporting against the RIS performance specification and investment plan provides strong supporting information to allow us to assess whether it is compliant with the relevant conditions of its licence. However, we may require additional reporting on a case-by-case basis, as appropriate.

2.22 It is important that National Highways sets out clear longer-term strategies, policies and plans to deliver what is required in the RIS and to comply with its licence. The company should set out action plans in areas where the department, we or it have identified a need to improve to give road users and taxpayers confidence that it is continuously improving to improve services and deliver value for money. Our monitoring and reporting on the delivery of these plans forms an important part of providing that assurance (paragraph 1.36).

Analysing financial performance and delivery

2.23 The Act requires ORR to understand how much National Highways has spent to achieve its objectives under the RIS. To understand the company's financial performance, including delivery of efficiency and value for money, it is not sufficient to look only at its expenditure compared to its funding allowance. We also consider what it has delivered, and whether outputs are being delivered effectively.

2.24 Our role in holding National Highways to account for financial performance and delivery includes understanding and assessing the company's:

a. actual spend against the funding available, as set out in the SoFA and revised through delivery plan updates;
b. reasons for variances between its actual expenditure and the funding available; and
c. efficiency, by reviewing its performance and delivery against the relevant KPIs, PIs and requirements in the RIS and its commitments in its delivery plan.

2.25 Holding National Highways to account for its efficiency performance against its KPI is complex. To ensure that the company is delivering more efficiently, rather than simply reducing outputs or deferring works, we consider evidence provided by the company that:

- shows movements in unit costs, or similar measures of productivity, over time;

- demonstrates it is delivering outputs or outcomes for the (post-efficient) funding;
- details how it has delivered efficiency improvements, principally through the use of detailed case studies; and
- accounts for external factors affecting costs ('headwinds' and 'tailwinds') such as inflation differing from the assumed rate.

2.26 The balance of evidence between these approaches can vary between areas of expenditure. We expect National Highways to set out its high-level approach to how it will capture and report its efficiency performance in the operational metrics manual (OMM) and we will agree the detail of its approach during RP3.

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