



Monitoring Reporting Guidelines for Highways England

For Road Period 2

Updated June 2020

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1. Overview

Purpose

- 1.1 These monitoring reporting guidelines and associated templates set out the information that Highways England is required to provide to the Office of Rail and Road (ORR) through annual performance monitoring statements.
- 1.2 The objective of these statements is to enable ORR to monitor Highways England's performance effectively and on a consistent basis over time.
- 1.3 These statements are the primary sources of information about Highways England's performance that we consider are required to fulfil our statutory duties and functions as the Highways Monitor¹. More specifically the performance monitoring statements enable ORR to:
 - monitor Highways England's operational and financial performance against the requirements of the second Road Investment Strategy (RIS2) Performance Specification;
 - monitor delivery against the RIS2 Investment Plan, Highways England's Strategic Business Plan and Delivery Plan;
 - monitor compliance with licence conditions; and
 - gather evidence relating to performance in the current Road Period to inform future road investment strategies, including, for example, to support benchmarking through regional disaggregation of key information.
- 1.4 These guidelines have been developed in consultation with Highways England. We have sought to make sure that the information that we require is proportionate to fulfil ORR's duties without placing any undue burden on the company. We have taken account of good practice from sectors that are economically regulated (see Annex A).
- 1.5 These guidelines and the associated templates are designed to allow Highways England the flexibility to meet ORR's initial monitoring requirements using current management information. But we recognise that Highways England makes ongoing improvements to its data collection and reporting which will better support its delivery and our monitoring. The guidelines and templates will be periodically revised to reflect developments in Highways England's reporting.

¹ The Infrastructure Act 2015 requires that ORR carry out activities to monitor how Highways England exercises its functions. The Act also gives ORR the power to direct Highways England to provide such information as we consider necessary for the purpose of carrying out our monitoring activities.

- 1.6 Updated reporting guidelines were published in June 2020 to reflect the requirements for RIS2. The RIS2 templates will then be published in 2020.

Outline

- 1.7 Chapter 2 sets out the components of the performance monitoring statements, requirements for publication and quality of reporting. Chapters 3 and 4 set out the requirements relating to the reporting of operational and financial information respectively.
- 1.8 Performance monitoring templates support these guidelines. The purpose of the templates is to provide guidance to Highways England about how it can fulfil the requirements of these guidelines.

2. Components of the performance monitoring statements

2.1 Highways England is required to produce performance monitoring statements annually for each relevant twelve month period ending 31 March. These statements are intended to provide a coherent and structured set of information to enable us to monitor Highways England's performance on a consistent basis over time. The information within the statements is also intended to inform future road investment strategies.

Contents of the performance monitoring statements

2.2 The performance monitoring statements will include the following:

- a) a directors' review of the company's operational and financial performance in the year and cumulatively compared to the RIS requirements;
- b) an annual statement confirming that Highways England maintains an effective assurance regime for the expenditure of public money and that its decision making meets the criteria set out in the Highways England Framework Document.
- c) operational performance statements as set out in Chapter 3;
- d) financial performance statements as set out in Chapter 4;
- e) assessment of risks to delivery across the Road Period;
- f) any other supporting information that Highways England considers necessary to fairly present its performance;
- g) sign off by the Highways England Board that confirms it has applied appropriate levels of assurance to ensure the accuracy of the information in the performance monitoring statements²; and
- h) a statement signed by the Board of Directors of Highways England's compliance with the following requirements:
 - its licence³; and

² ORR and Highways England recognise that further improvements need to be made to data quality and disaggregation.

³ Condition 3.1 of the company's licence requires that Highways England must, without prejudice to its legal duties or other obligations, comply with or have due regard to (as appropriate) the conditions set out in the licence, which constitute statutory directions and guidance issued by the Secretary of State. See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/431389/strategic-highways-licence.pdf.

- the Road Investment Strategy⁴.

- 2.3 Each statement on operational and financial performance should be supported by explanations of differences compared to the previous year and differences compared to the requirements set out in the Road Investment Strategy.
- 2.4 The templates supporting these guidelines are intended to provide guidance to Highways England about the format of the performance monitoring statements. Highways England must present the required information in the format set out in the templates provided, unless any change of approach has been agreed with ORR.

Delivery and publication

- 2.5 The performance monitoring statements should be made available to ORR, prior to publication, as soon as reasonably practical following the end of the relevant financial year and to a timeframe agreed by Highways England and ORR.
- 2.6 If there is a difference between the performance monitoring statements that have been submitted and the requirements of these guidelines, Highways England must inform us. We will then consider whether or not to require modifications to be made to the information submitted.
- 2.7 An electronic version of the performance monitoring statements should also be provided in a spreadsheet which clearly shows the flow of information and details of calculations within the statements.

Impact of change control

- 2.8 Highways England must note on the performance monitoring statements any formal change control that has been agreed with DfT and must make the impact of change control clear through its performance monitoring statements, for example being clear where any performance targets have been formally changed. DfT holds the role of decision maker and the Monitors role is to advise DfT.

Quality of reporting

- 2.9 In general, the basis of preparation of the statements should satisfy the following criteria:

⁴ See:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/872252/road-investment-strategy-2-2020-2025.pdf

- information should be presented on a consistent basis over time;
- operational performance should be recorded in accordance with the operational metrics manual or in accordance with the initial delivery plan as appropriate. ORR must be informed of any agreed changes to the manual and provided with the latest version; and
- accounting policies applied by Highways England should be fair and reasonable and applied consistently and objectively.

2.10 Where ORR deem appropriate we may require independent experts to assess information provided in the performance monitoring statements.

Template reporting statements

2.11 The performance monitoring templates supporting these guidelines will be agreed between the Monitor and Highways England and published in 2020. Unless otherwise agreed with us, monetary amounts should be presented in £m to zero decimal places and percentages and ratios should be presented to two decimal places.

3. Operational performance

3.1 Reporting of Highways England's operational performance is intended to inform ORR's monitoring of the company's performance compared to the requirements set out in RIS2. In particular, Highways England must set out how it is performing against the RIS2 Performance Specification (for example, in relation to improving safety for all, being environmentally responsible and meeting the needs of all road users) and how it is delivering against the RIS2 Investment Plan. This information is also intended to provide a time-series of consistently reported information to inform the development of future road investment strategies.

Scope

3.2 The Performance Specification and the Investment Plan are components of the RIS and set the outputs that Highways England must deliver during Road Period 2, the five year period from 1 April 2020 to 31 March 2025.

3.3 The Performance Specification⁵ includes key performance indicators (KPIs), performance indicators (PIs) and requirements in relation to six key outcome areas, five of which are covered in this chapter (achieving real efficiency is covered in Chapter 4).

3.4 The Investment Plan⁶ requires Highways England to complete a number of improvement projects, begin construction of others, carry out scheme development, maintain and renew the network, and develop and deliver programmes of work in relation to specific funds. It also requires Highways England to meet the milestones the company sets in its delivery plan⁷.

3.5 Highways England also operates under a licence⁸, which sets out wide-ranging conditions governing Highways England's activities.

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382814/dft-ris-performance-specification.pdf

⁶ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/872252/road-investment-strategy-2-2020-2025.pdf

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/424467/DSP2036-184_Highways_England_Delivery_Plan_FINAL_low_res_280415.pdf

⁸ Part of statutory directions and guidance issued to Highways England by the Secretary of State

Information to be reported on operational performance

3.6 The high level areas in which ORR requires information to be provided on operational performance are set out below.

Performance Specification

3.7 Highways England should set out how it is delivering against the Key Performance Indicators, Performance Indicators and Requirements set out in the Performance Specification, and associated forecasts and targets. This includes information for the defined outcome areas:

- improving safety for all;
- providing fast and reliable journeys;
- a well maintained and resilient network;
- being environmentally responsible;
- meeting the needs of all users; and
- achieving efficient delivery (this outcome area is addressed in Chapter 4).

3.8 Reporting in these areas should be as set out in Highways England's published Operational Metrics Manual. Changes to the Operational Metrics Manual should be agreed with DfT following consultation with the Highways Monitor.

3.9 In the first road period, Highways England developed its ability to report some regional performance data. We expect the company to continue developing its regional data in the second road period, and report this through the monitoring statements. We expect this work to continue, and the company to publish more regional data in the second road period. Reporting should be disaggregated on a regional basis including where variance in regional performance explains national performance, where appropriate.

Investment Plan

3.10 Highways England should set out how it is delivering against the Investment Plan as set out below.

Major schemes

3.11 The company should set out a clear statement of progress in delivering the programme of major schemes. This should include:

- expected (or actual) dates covering start of works and open for traffic for each scheme, as set out in the most up-to-date version of the delivery plan, or separately agreed with DfT and the highways monitor. The statement should

also show the dates for start of works and open for traffic which were set out in the original RIS2 delivery plan;

- progress in delivering high-level asset volumes (for example, number of lane km delivered);
- progression of projects through pre-construction stages; and

3.12 Financial information should be supplied as set out in Chapter 4.

Designated Funds

3.13 The company should set out summary information including progress against commitments made in the delivery plan and updates to the delivery plan and where appropriate; the number of schemes in development, in construction and completed. Where relevant, there should be cross referencing to reporting against the Performance Specification.

3.14 Financial information should be supplied as set out in Chapter 4.

Maintenance and renewals

3.15 Highways England must provide evidence that it is doing enough maintenance and renewal of the network to manage the degradation of its assets over time, commensurate with its agreed funding package. This evidence should include demonstrating that the approach being taken is sufficient to maintain delivery of outcomes at appropriate levels when forecasts of traffic levels and use are taken into account over the short, medium and long-term. Examples of the types of evidence which could be provided, where possible are:

- asset condition measures (historical, actual and forecast);
- measures of asset remaining life (historical, actual and forecast);
- asset failure rates (historical, actual and forecast);
- summary information of volumes of work (historical, actual and forecast); and
- demonstration of asset management capability and application of sound management processes, for example evidence of development and application of policies which are aimed at managing assets in the most appropriate way to deliver required outputs efficiently.

3.16 Highways England should improve the quality of evidence it is able to report on measures relating to maintenance, this should build on the work that began in RIS1.

3.17 Financial information should be supplied as set out in Chapter 4.

Explanations of variances

3.18 Highways England needs to be able to provide an adequate explanation of variances between actual performance and the requirements in the RIS / its plans, including how any underperformance or outperformance has been achieved. This is important because it helps us to understand how Highways England is managing its business compared to the requirements in the RIS and compared to its plans

3.19 Highways England should provide an explanation of its operational performance variances, including:

- Key Performance Indicators, Performance Indicators and Requirements outturns compared to its targets and planned / forecast performance, and how the company is managing the risks identified;
- major scheme delivery compared to its planned milestones;
- the number of designated fund schemes and other investments delivered compared to its plans;
- renewals volume delivery compared to its plans.

3.20 Where:

- Key Performance Indicators, Performance Indicators and Requirements show a worsening trend, missed targets or risks to future targets; or
- Reporting against the Investment Plan shows that deliverables are being missed or are at risk;

then Highways England should explain why and make clear what it is doing to rectify the situation. The company should also explain significantly improved performance or outperformance of targets.

3.21 When providing information on a time-series, trends should be identified, explained and compared to the expected trajectory.

3.22 Highways England must identify the main reasons which account for any variance. The reasons should be quantified in terms of their impact and separated into those that are in the control of Highways England and those that are not. When explaining variances the company should disaggregate the variance by cause. This is likely to include identifying work deferred or accelerated and the reasons, e.g. planning consent, on-site asset condition, reprioritisation, supply chain constraints, productivity etc.

4. Efficiency and financial performance

4.1 Reporting of Highways England's efficiency and financial performance is necessary to make efficiency savings transparent and inform our monitoring. This information is also intended to provide a time-series of consistently reported financial information to inform our efficiency assessments for future road investment strategies.

Reporting of efficiency savings

4.2 Highways England is required to meet their target for efficiency savings in RIS2⁹. Following consultation with us and DfT, Highways England is expected to publish how it will measure efficiency in its Efficiency and Inflation Monitoring Manual (EIMM) in Summer 2020.

4.3 It is important to note that the measurement of efficiencies is not a simple examination of expenditure variances over time. Efficiencies can be achieved by more productive ways of working or by providing a more effective product as well as saving costs. These efficiency drivers (economy, productivity and effectiveness) are outlined within the EIMM and are not repeated here.

4.4 Highways England's reporting of efficiencies needs to include:

- A forecast of Embedded Efficiency for the RIS
- A statement of Measured Efficiency achieved to date and forecast for the RIS

4.5 Evidence of efficiency will be reported in an annual Efficiency Report for our review and will include:

- Performance against funding – where the efficiency is evidenced through the delivery of the outputs/outcomes for the post-efficient funding
- Basket of activity metrics - where efficiency is evidenced using the variance between baseline activity and/or costs.
- Efficiency register build-up – efficiency is recorded on an efficiency register and supported by case studies, with the total value (from the efficiency register) being reported.

4.6 Embedded efficiency will be primarily evidenced through performance against funding with supporting evidence from the other areas. Measured efficiency will be

⁹ This requirement is set out in the RIS2 performance specification, see https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/872252/road-investment-strategy-2-2020-2025.pdf

measured primarily through efficiency register case-studies with supporting evidence from the other areas. In providing commentaries there will be a high level review on the consistency of the evidence provided against each element.

- 4.7 An analysis of activity measures used by Highways England as supporting evidence of delivery of embedded efficiency will also be provided

Reporting of financial performance

- 4.8 The performance monitoring statements must include the information on financial performance set out in this section. Supporting templates provide guidance on how this information can be presented.

- 4.9 Unless we agree otherwise, income and expenditure will be reported on the same basis as it was treated in the RIS.

Summary of total income and expenditure

- 4.10 A summary of total income and expenditure during the year compared to the RIS baseline and compared to prior year expenditure. Where applicable total RIS1 income and expenditure should also be included in the summary.

Resource income and expenditure

- 4.11 An analysis of resource income and expenditure during the year compared to the budget, RIS baseline and compared to prior year broken down into the key activities as agreed between Highways England and the Monitor in RIS2.

- 4.12 A geographical analysis of resource income and expenditure, where appropriate, for each key activity.

- 4.13 For each of the key activities identified, an analysis of income and expenditure compared to the RIS baseline and compared to prior year expenditure between the following categories:

- project costs (e.g. routine maintenance, winter maintenance, technology maintenance and other);
- non project costs;
 - employee pay costs (e.g. employee salaries, national insurance costs, pensions costs and agency staff costs);
 - non-pay employee costs (e.g. travel and subsistence, training and development and other non-pay costs); and
 - if appropriate, any income relating to that activity.

4.14 For each of the key activities identified, a geographical analysis, where appropriate, of the number of full time employees working on that activity or in the applicable directorate/division.

Capital expenditure

4.15 An analysis of capital expenditure during the year compared to the budget, RIS baseline and compared to prior year broken down into the key activities as agreed between Highways England and the Monitor in RIS2.

4.16 Where practicable, a geographical analysis of expenditure for each of the activities listed above.

Protocols

4.17 An analysis of expenditure on protocols during the year compared to the RIS2 baseline¹⁰.

Explanations of variances

4.18 Each statement should be supported by explanations of differences compared to the RIS2 baseline, and compared to the prior year.

4.19 Variances in maintenance and renewal expenditure should be separately quantified and explained.

4.20 Variances in expenditure on improvements to the network should be separately quantified and explained between planned acceleration/deferral of work and cost under/over runs where available.

Effect of input price inflation

4.21 Input price inflation is the change in the prices of the inputs (goods and services) that Highways England purchases in undertaking its activities to operate, maintain and improve the strategic road network. The amount of funding that was made available to Highways England for Road Period 2 took into account forecast input price inflation separately for capital and resource expenditure for each year of Road Period 2.

¹⁰ Protocols refer to the eight statutory duties of the Secretary of State that have been delegated to Highways England. These include authorising the movement of abnormal loads within Great Britain and managing the emergency salt reserve for English local highway authorities. Further information about Highways England's protocol arrangements is available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414864/highways-england-framework-document-annex-c-protocol-agreement.pdf.

4.22 Outturn input price inflation will likely be different to the forecasts underpinning Highways England's RIS2 funding. This may affect Highways England's actual expenditure compared to the RIS2 baseline and impact the company's reported efficiency performance. Highways England should set out how input price indices have varied compared to the forecasts underpinning the RIS2 baseline.

Reconciliation to statutory financial information

4.23 The income and expenditure in the performance monitoring statements should be reconciled to the income and expenditure reported in Highways England's annual report and accounts.

Annex A: Regulatory good practice

1. The Department of Trade and Industry's Green Paper on utility regulation, A Fair Deal for Consumers published in 1998, suggested that there would be benefits if regulated companies were to produce more standardised regulatory financial statements. A working group on regulatory financial statements was set up to identify and develop areas of consistency within published regulatory financial statements. In so far as possible, we have adopted the common regulatory accounting principles agreed by the working group.
2. The main elements of these high-level principles are:
 - regulatory financial statements will be prepared and audited using the common regulatory accounting framework devised by the working group. Where there are any conflicts between Regulatory Accounting Guidelines and any other Generally Accepted Accounting Practice, then the Regulatory Accounting Guidelines will take precedence;
 - where practical, there will be consistency between the formats of the regulatory financial statements used in the industries regulated by the members of the working group;
 - where appropriate, actual performance will be compared to the assumptions underlying price controls;
 - the requirements for the audit of the regulatory financial statements will become more clearly defined (this is described in more detail in Chapter 2); and
 - regulatory financial statements will be published no later than four months after the regulatory accounting year end; and, where appropriate, the regulatory financial statements will include additional information that will enhance understanding of the regulated companies' performance.
3. Each economic regulator has a different emphasis in developing regulatory accounting arrangements depending on the structure of the industry that it regulates. Where there are significant differences between regulators, these derive primarily from the structure of the industry rather than from differences of principle.
4. For example, in the telecommunications industry, regulatory accounting arrangements are designed to reflect the development of competition and the importance of monitoring and detecting anti-competitive behaviour such as unfair cross-subsidisation and undue discrimination. In areas where there is currently little competition between networks, such as water and sewerage, the focus is on ensuring that regulatory accounting arrangements provide consistent and transparent financial information in order to monitor performance and support the resetting of price controls.



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