



Monitoring Reporting Guidelines for Highways England

For Road Period 1

Updated May 2018

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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 us through annual monitoring reporting statements.
- 1.2 The objective of these statements is to enable us 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 for us to fulfil our statutory duties and functions as the Highways Monitor¹. More specifically the monitoring reporting statements enable us to:
 - monitor Highways England's operational and financial performance against the requirements of the Road Investment Strategy (RIS) Performance Specification;
 - monitor delivery of Highways England's RIS Investment 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 our 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 our initial monitoring requirements using current management information. But we recognise that Highways England is implementing improvements to its data collection and reporting which will better support its delivery and our monitoring. The guidelines and templates will therefore be periodically revised and updated to reflect developments in Highways England's reporting and the monitoring framework.

¹ The Infrastructure Act 2015 requires that we carry out activities to monitor how Highways England exercises its functions. The Act also gives us 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 In 2017-18 the guidelines and templates were reviewed with Highways England resulting in some minor revisions. The guidelines and templates were republished in May 2018.

Outline

- 1.7 Chapter 2 sets out the components of the monitoring reporting statements, 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 Template monitoring reporting statements 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 monitoring reporting statements

2.1 Highways England is required to produce monitoring reporting 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 monitoring reporting statements

2.2 The monitoring reporting 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) operational performance statements as set out in Chapter 3;
- c) financial performance statements as set out in Chapter 4;
- d) assessment of risks to delivery across the Road Period;
- e) any other supporting information that Highways England considers necessary to fairly present its performance;
- f) 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 monitoring reporting statements²; and
- g) a statement signed by the Board of Directors of Highways England's compliance with the following requirements:
 - its licence³; and
 - the Road Investment Strategy⁴.

² We 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.

⁴ See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382808/dft-ris-overview.pdf.

- 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 monitoring reporting statements. Highways England can present the required information in a different format to that set out in the templates provided that any change of approach has first been agreed with us.

Delivery and publication

- 2.5 The monitoring reporting statements should be made available to us as soon as reasonably practical following the end of the relevant financial year and to a timeframe set out by us.
- 2.6 If there is a difference between the monitoring reporting 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 monitoring reporting statements should also be provided in a spread sheet which clearly shows the flow of information and details of calculations within the statements.

Impact of change control

- 2.8 Highways England must notify the Highways Monitor of any formal change control that has been agreed with DfT and must make the impact of change control clear through its monitoring reporting statements, for example being clear where any performance targets have been formally changed.

Quality of reporting

- 2.9 In order for us to make informed assessments about Highways England's performance we need to have confidence that the information contained within the monitoring reporting statements is accurate and reliable. Highways England must therefore be able to adequately demonstrate to us that the monitoring reporting statements are supported by properly documented records and that the reporting systems and processes are fit for purpose. This includes being able to demonstrate that appropriate levels of internal verification have been applied.
- 2.10 In general, the basis of preparation of the statements should satisfy the following criteria:

- 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.

2.11 Where we deem appropriate we may require independent experts to assess information provided in the monitoring reporting statements.

Template reporting statements

2.12 Template monitoring reporting statements supporting these guidelines are available in the spread sheet '[Template monitoring reporting statements]'.

2.13 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 our monitoring of the company's performance compared to the requirements set out in the Road Investment Strategy (RIS). In particular, Highways England must set out how it is performing against the RIS Performance Specification (for example, in relation to making the network safer, better environmental outcomes and improving condition of the assets) and how it is delivering against the RIS 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 1, the five year period from 1 April 2015 to 31 March 2020.

3.3 The Performance Specification⁵ includes key performance indicators (KPIs), performance indicators (PIs) and requirements in relation to eight key outcome areas, seven 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 a number of strategic studies, 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://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408514/ris-for-2015-16-road-period-web-version.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 we will require information to be provided on operational performance are set out below.
- 3.7 Supporting templates provide guidance on how this information can be presented.

Performance Specification

3.8 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 each of the defined outcome areas:

- Making the network safer;
- Improving user satisfaction;
- Supporting the smooth flow of traffic;
- Encouraging economic growth;
- Delivering better environmental outcomes;
- Helping cyclists, walkers and other vulnerable users of the network;
- Achieving real efficiency (this outcome area is addressed in Chapter 4); and
- Keeping the network in good condition.

- 3.9 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 and the Highways Monitor.
- 3.10 Reporting should be disaggregated on a regional basis where appropriate. This should include where variance in regional performance explains national performance.

Investment Plan

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

Major schemes

- 3.12 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 RIS1 delivery plan;

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

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

Ring-Fenced Investment Funds

3.14 The company should set out summary information on the number of schemes in development, in construction and completed, including progress against commitments made in the delivery plan and updates to the delivery plan. Where relevant, there should be cross referencing to reporting against the Performance Specification (for example, the number of new and upgraded crossings complete).

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

Maintenance and renewals

3.16 Highways England must provide evidence that it is doing enough maintenance and renewal on the network to counter the degradation of its assets over time, i.e. that its approach to managing its assets is sustainable. 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 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.

3.17 Highways England should work to improve the quality of evidence it is able to report on measures relating to maintenance, and include these in its monitoring reporting statements from 2018-19.

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

Explanations of variances

3.19 The explanation of variances to plans and targets is important because it helps us understand how Highways England is managing its business compared to the requirements in the RIS and compared to its plans. 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.

3.20 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;
- major scheme delivery compared to its planned milestones and volumes delivered;
- the number of investment fund schemes delivered compared to its plans; and
- renewals scheme delivery and volume delivery compared to its plans.

3.21 The explanation of operational performance in each area should include how the company is managing the risks identified for the delivery of Key Performance Indicators, Performance Indicators, Requirements, milestones, volumes and plans.

3.22 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.

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

3.24 Highways England must identify the reasons which account for the majority of 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 and 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 make over £1.2 billion of efficiency savings in RIS1⁹. Following consultation with us and DfT, Highways England published how it will measure efficiency in its Efficiency and Inflation Monitoring Manual (EIMM) in September 2015¹⁰.

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 components of efficiency (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:

- 1) a summary of the company's detailed project level efficiencies built up from efficiency registers together with explanations of how these savings have been achieved;
- 2) a summary of how the funding provided through the RIS is being spent; and
- 3) an analysis of unit costs for the key areas of delivery and provide commentary as to their movement from pre-RIS levels through the progress of the Road Period.

4.5 The three elements above provide a different context for viewing efficiencies but are expected to provide a reasonably consistent understanding of how savings have been achieved. In providing commentaries there will be a high level review on the consistency of the evidence provided against each element.

⁹ This requirement is set out in the RIS1 performance specification, see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408514/ris-for-2015-16-road-period-web-version.pdf.

¹⁰ See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464887/Efficiency_Manual_v5_spreads.pdf.

Reporting of financial performance

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

4.7 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

4.8 A summary of total income and expenditure during the year compared to the RIS baseline and compared to prior year expenditure.

Resource income and expenditure

4.9 An analysis of resource income and expenditure during the year compared to the budget, RIS baseline and compared to prior year for the following key activities:

- 1) Maintenance;
- 2) Renewals;
- 3) Private finance initiative (PFI) payments;
- 4) general operations management;
- 5) traffic management;
- 6) support activities; and
- 7) other project activities.

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

4.11 For each of the activities listed above, an analysis of income and expenditure compared to the RIS baseline and compared to prior year expenditure between the following categories:

- 1) employee pay costs (employee salaries, national insurance costs, pensions costs and agency staff costs);
- 2) non-pay employee costs (travel and subsistence, training and development and other non-pay costs);
- 3) project costs (routine maintenance, winter maintenance, technology maintenance and other); and

- 4) if appropriate, any income relating to that activity.

4.12 For each of the activities listed above, a geographical analysis of income and expenditure, where appropriate.

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

Capital expenditure

4.14 An analysis of capital expenditure during the year compared to the budget, RIS baseline and compared to prior year for the following key activities:

- 1) Renewals expenditure (separated between each major type of renewals activity);
- 2) For each Spending Review 2010 and Spending Review 2013 improvement schemes;
- 3) For each RIS improvement schemes;
- 4) Feasibility studies
- 5) For each investment fund (air quality; cycling, safety & integration; environment; innovation, and supporting growth); and
- 6) Other investment schemes.

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

Protocols

4.16 An analysis of expenditure on protocols during the year compared to the RIS baseline¹¹.

¹¹ 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.

Unit costs

- 4.17 An analysis of maintenance unit costs and volumes of work, and an analysis of renewals unit costs and volumes of work compared to those in 2014-15, the final year preceding Road Period 1.
- 4.18 Maintenance and renewals unit cost coverage, i.e. the amount of expenditure for which it reports unit cost information should be reported and explanations provided for expenditure where no unit cost information is available.

Explanations of variances

- 4.19 Each statement should be supported by explanations of differences compared to the RIS baseline, and compared to the prior year.
- 4.20 Variances in maintenance and renewal expenditure should be separately quantified and explained.
- 4.21 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

- 4.22 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 1 took into account forecast input price inflation separately for capital and resource expenditure for each year of Road Period 1.
- 4.23 Outturn input price inflation will likely be different to the forecasts underpinning Highways England's RIS1 funding. This may affect Highways England's actual expenditure compared to the RIS baseline. Highways England should set out how input price indices have varied compared to the forecasts underpinning the RIS baseline.

Reconciliation to statutory financial information

- 4.24 The income and expenditure in the monitoring reporting 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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