
Fourth Special Report of Session 2014–15

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The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Transport and its Associate Public Bodies.

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The Reports of the Committee and the formal minutes relating to that report are available in a printed volume. Written evidence is published on the internet only.

Committee staff

The current staff of the Committee are Gordon Clarke (Clerk), Nick Beech (Second Clerk), Alexandra Meakin (Committee Specialist), Adrian Hitchins (Senior Committee Assistant), Stewart McIlvenna (Committee Assistant), and Hannah Pearce (Media Officer)

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Fourth Special Report

On 21 July 2014 we received a response from the Government to the Transport Committee’s Fifteenth Report of 2013–14, Better roads: Improving England’s Strategic Road Network, which we publish with this Special Report.¹

Government Response

Introduction to roads reform

1. Our aim is to create a strategic road network befitting of a modern, vibrant and progressive country and economy, which gives road users the best possible quality of service and supports broader economic, environmental and safety goals.

2. Achieving these aims requires a world-leading public delivery and operations company that emulates best practice from comparable private sector bodies, delivers faster and more efficiently, provides a better service to customers and gets the best possible value for money for taxpayers from this investment.

3. To this end, we are changing the way the strategic road network is managed and run, by:

   • Establishing a new, long-term ‘Road Investment Strategy’ (RIS), setting out a clear vision and a stable, long-term plan for the network.

   • Transforming the Highways Agency into a government-owned Strategic Highways Company, able to operate more flexibly and efficiently and develop into a world-leading road operator.

   • Putting in place a robust system of governance for this company, ensuring that Ministers set the strategic direction for the network, giving the company the autonomy to run the network on a day-to-day basis, while ensuring can be held to account for its performance and continues to run the network in the public interest.

   • Setting up an independent watchdog and monitor, to represent the interests of road users, and to monitor the efficiency and performance of the company.

   • Introducing legislation to underpin these reforms, creating the legal framework for reforms and provide a strong foundation that puts highways investment on a stable footing similar to other sectors.

4. Alongside these reforms, we have committed to a transformational level of investment of £24 billion in our national roads, providing a long-term commitment to funding for the network and trebling investment by 2020.

5. Together, these changes will tackle historic problems of short-term decision making and uncertainty in funding, strengthen delivery and transform how our strategic roads are run.

¹ HC 850, published on 7 May 2014.
This will ensure more efficient operation and faster delivery, saving the taxpayer at least £2.6 billion over ten years. It also means clearer accountability and greater transparency, providing assurance on the spending of public money and ensuring that the network continues to be run in the public interest.

**Further activity on roads reform**

6. The Government’s Response to the public consultation on transforming the Highways Agency was published on 30 April 2014, just prior to publication of the Committee’s report on 7 May 2014. Since then, the Government has published significant further detail about our plans for reforming the way strategic roads are managed and run.

7. On 6 June, the legislation required to implement the reforms was introduced as part of the Infrastructure Bill.2 The Bill was accompanied by an updated Impact Assessment and the publication of a business case for the creation of a new arms-length body in place of the Highways Agency,3 which together provide more information and evidence about the costs and benefits of reforms.

8. On 23 June, we then published a suite of documents4 to provide important context to the roads reform legislation in the Infrastructure Bill, which set out further information and details of the key elements that, together, will form a cohesive and robust governance framework for the new company. The documents published were:

- *Transforming our strategic roads; a summary* – an introduction to roads reform, summarising the reasons for change, how the new regime will work, and the benefits it will bring;

- *Strategic Highways Company: Draft Licence* - an outline draft of the company’s Licence, in which the Secretary of State sets statutory Directions and Guidance, and objectives and conditions for how the company will act;

- *Setting the Road Investment Strategy: Now and in the Future* – a draft description of the elements that will form the Strategy and the process for developing the first and future Strategies;

- In addition, we published further information about the purpose and content of the *Framework Document* and *Articles of Association* for the company and how these will be developed.

**Demand**

**Recommendation 1:** The DfT must immediately open the NTM to wider scrutiny, as the Treasury and the OBR have done with their macroeconomic model, to ensure that it accords due weight to all factors affecting transport demand, including economic

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4 https://www.gov.uk/government/collections/roads-reform
growth, industrial development, fuel prices, vehicle ownership and demographic shifts. (Paragraph 21)

9. The NTM is an analytical and policy-testing tool, which is used to provide road traffic forecasts, as well as a systematic means of comparing the national consequences of alternative national or widely applied local transport policies against a range of background scenarios, taking into account the major factors affecting future patterns of travel. These include factors such as population, demography, economic growth, the money cost of driving and network capacity and congestion.

10. The NTM uses what is known as a four stage behavioural modelling approach to forecast the demand for travel. Firstly, it estimates the numbers of trips people make, with the frequency of trip making varying depending on factors such as household structure, car ownership, and employment. Secondly, it allocates those trips to journeys made between specific origins and destinations, by comparing the attractiveness of different destinations with the costs of getting there. Thirdly, it allocates those journeys to specific modes, by comparing the relative costs of travelling by different modes. Finally, it allocates the journeys to specific routes across that mode’s transport network, taking account of the impact of congestion and crowding.

11. It combines a wealth of information taken from a range of sources, such as the National Travel Survey, the population census and the road traffic and goods vehicle censuses. Non-transport related inputs such as oil prices and GDP assumptions are agreed with other Government Departments such as ONS, HMRC and OBR. Whilst the NTM assumes behaviour at micro-level remains unchanged, aggregate ‘behaviour’ can change through the composition of the population.

12. The NTM itself has been incrementally developed over a considerable number of years, deliberately making best use of existing data-sources and models wherever possible. It actually comprises a number of discrete models covering different aspects of supply and demand, including amongst others, separate models for emissions, car ownership, vans and heavy goods vehicles, and a personal travel demand model which covers six different modes of travel. These are for car driver, car passenger, rail, bus, walk and cycle, and this enables the model to look at mode switching.

13. These models have been produced by a number of different independent consultants, use a range of computer languages and in some cases rely on legacy or bespoke software packages. This suite of models is connected together through a series of bespoke interfaces, which operate at different levels of geographical or demographic detail and iterate between themselves until convergence, between the costs associated with different levels of supply and demand, is achieved.

14. The Department appreciates the views of the Committee on opening up the NTM to further external scrutiny. We have already sought to do this in a number of ways, including:

• Submitting the NTM for extensive peer-review and validation. This has been done on a number of occasions and included, for example, the ‘Eddington Friends’ group of experts in 2006. These reviews have consistently shown the model to be fit for the
purpose of strategic policy analysis. Model results, when compared with actual data, has shown that the NTM performs well.

- Publishing a number of reports on the NTM, providing detail on the overall structure, inputs and performance, and the individual models - including an external validation\(^5\) and peer review.

- Providing a regular overview of the model as part of regular *Road Traffic Forecast* publications, including updates to, and sensitivities around key assumptions and inputs, and how these affected traffic growth over time – along with results from the model, disaggregated by region, road and area type\(^6\).

- Making detailed model outputs available to certain academics and research institutes.

- However, given the significant size and complexity of the series of interlocking models that make up the NTM, attempting to give direct public access to it would be a complicated and very resource-intensive undertaking. Achieving the correct installation of the current suite of models that comprise the NTM on a contemporary and remote computer system would represent a considerable challenge, and would require significant support to other users to enable them to understand and utilise the model effectively.

15. We therefore believe that at the current time the most effective way to ensure sufficient and proportionate scrutiny of the NTM is to continue to engage positively with stakeholders and experts, through various stakeholder forums and workshops, as part of our effort to develop and improve our forecasts and provide clarity on how the NTM works. The Department is already planning to hold a workshop in September to engage with a wide range of external stakeholders and academic experts to improve understanding of how the NTM works, update them on the current programme of work to improve the model and discuss the future development and scrutiny of the NTM.

16. As part of this approach, and to help maintain and develop robust and credible approaches to its appraisal framework and modelling, the Department announced in October 2013 that it would create a Transport Modelling and Appraisal Panel\(^7\). We will look to use this panel initially to open up the NTM to wider expert scrutiny, and ensure the model remains fit for purpose, in a manageable way.

17. Whilst we think our forecasts provide a sound basis for informing decisions about transport investment, we seek to continuously improve our methods and how we work with external experts to improve them. The Department is therefore currently looking at new ways to develop its existing modelling capability with the intention of opening up the model to wider scrutiny in the future.

\(^5\) http://webarchive.nationalarchives.gov.uk/20110202223628/http://www.dft.gov.uk/pgr/economics/ntm/


An effective programme

Recommendation 2: The DfT must develop a transparent system of road planning as part of a wider national transport strategy. This system should take into account demographic, economic and land use changes, including changes in the location of homes and parking policy. This will allow the DfT to select the most resilient options for reducing congestion or improving connectivity and to promote them across Government Departments and local authorities. (Paragraph 27)

Recommendation 3: The DfT should commission integrated passenger and freight plans for strategic transport routes or regions, rather than looking at one mode of transport in isolation. Such integrated plans, which should be developed in consultation with local authorities, local enterprise partnerships and community and road user groups, must take into account how different options for the use of infrastructure and technology will impact on transport movements and on economic development. The DfT must then identify projects—including maintenance schemes—within the chosen plan for implementation within the five-year funding cycle. Every project should be subject to a post-implementation review to assess the effectiveness of the investment. We recommend that this process be set out in the forthcoming Roads Investment Strategy. (Paragraph 38)

Recommendation 9: The Government must demonstrate an integrated transport approach in developing and assessing improvements to strategic routes. It must always consider how road and rail improvements for passengers and freight can play a role together in solving problems on the SRN and its feeder roads. This should be alongside the trial of simple measures such as ride-sharing and off-peak deliveries to reduce congestion on parts of the SRN most used for local journeys. (Paragraph 63)

[Please note: The Department has sought to respond to recommendations 2, 3 and 9 together, as we consider they share a common theme concerning joined up planning and decision-making about transport investment and delivery].

Complementary investments in transport

18. Roads and railways are always going to be critical parts of the transport network, and we need make sure they function well. The Government has already committed to transformational and complementary investments in road and rail that will deliver significant benefits for individuals and businesses, including freight.

19. We are investing £24 billion in strategic roads between 2010 and 2021, and £28 billion across strategic and local roads in the next Parliament (2015-2021). This includes £6 billion in this Parliament and £12 billion in the next on maintenance alone - enough to resurface 80% of the strategic road network and fill 19 million potholes on local roads. We are also putting billions of pounds into the railways and pushing ahead with High Speed 2.

20. Our roads investment programme is a balanced package. It includes funding for major schemes; pinch point improvements; a significant uplift in maintenance; and continued roll out of ‘smart motorways’. It also includes significant investment in environmental and cycling improvements, with an extra £500m support for ultra-low-emission vehicles and over £20 million on cycling improvements on strategic roads. In addition, the Highways
Agency has commenced work to provide improved training for all highways engineers to design roads that are safe and easy for cyclists to use.

21. This is part of a wider commitment to cycling that includes more than doubling funding for cycling to £374 million, which with local authority and third party contributions is now roughly £5 per person per year across England, and over £10 per person each year in London and in our eight cycling ambition cities: Birmingham, Leeds, Manchester, Bristol, Newcastle, Norwich, Oxford and Cambridge.

22. We are investing almost £4 billion from 2011-2015 on maintenance of the local road network. And we are also investing more widely at a local level. In July 2014 we announced, as part of the Local Growth Fund, the largest local transport funding announcement for over a decade – around £3 billion of Government funding for new local transport schemes in total – with £1.5 billion for new local road schemes, including congestion pinch points, roads to facilitate new development and employment sites, and new bypasses.

23. This is in addition to the £600 million of previously allocated funding to major local transport schemes, such as the Norwich Northern Distributor Route, which will now be supported through the Local Growth Fund.

**A pragmatic approach to joining up transport planning and decision-making**

24. We recognise that getting the most out of this significant investment means making the whole system work as well as it can.

25. However, we need to be realistic about the best way of integrating transport planning and decision-making on investment and delivery. Previous top-down attempts at integrated, multi-modal transport planning have been big on rhetoric, but in practice have failed to improve or speed up the planning and delivery of real improvements for transport users. Bottom up approaches have often descended into huge multimodal studies, consuming large amounts of time and resources, producing vast quantities of analysis but rarely delivering commensurate or timely improvements in infrastructure or transport outcomes.

26. We also need to be realistic about the extent to which different modes can provide genuine, sensible and proportionate alternatives to solving specific transport problems, where the best solutions may depend on the local circumstances, including the location of existing transport networks and the extent to which journeys can switch between modes. In many cases, individual projects have demonstrated the potential for effective integration between national and local transport networks where decisions are taken in a joined-up way. For example, new improvements to the A453 will connect directly to park and ride facilities on the Nottingham Express Transit extension.

27. The Government supports a holistic and multi-modal approach to transport problems and planning improvements. We believe, though, that a pragmatic approach is needed that allows transport investment planning and decision-making to be joined up at the right time and at the right level – enabled and supported by the reforms we are putting in place for roads, alongside the frameworks already in place for rail and local transport.
National strategy and investment planning

28. In August 2013, the Department published *Transport – an engine for growth*, which set out our strategic approach to making the most of this investment in our transport network. This aimed to make it easier for transport planners to join up planning more effectively, with particular emphasis on the need to work closely with our partners to ensure our plans are understood and that opportunities are fully realised.

29. The forthcoming Road Investment Strategy (RIS) will provide a clear, longer term investment planning framework for strategic roads, and give greater certainty to the road operator and others to facilitate more effective and joined up planning and delivery.

30. Ministers will propose a draft RIS. Following advice from the Office of Rail Regulation and Passenger Focus on the company’s response (its draft strategic business plan), Ministers will make a decision on the final RIS and strategic business plan. The primacy of Ministers in the proposed system is clear when it comes to setting or varying a RIS – they are the ultimate decision makers in the process and retain the right of determination if an agreement between the company and Ministers cannot be reached.

31. Through the RIS, the new strategic highways company will operate the network under a robust and much more transparent ‘performance contract’ with the government, modelled on similar mechanisms in the regulated sectors. The company can be sanctioned for failing to deliver any part of it in budget. This also means that taxpayers and road users will be able to view strategic plans and expectations for the network and hold the company to account for its performance on delivery and operation.

32. This will put investment planning for roads on a similarly stable footing to other infrastructure sectors, such as railways, where the High Level Output Specification (HLOS) process has allowed railways to deliver large-scale projects across a large area over many years, and deliver transformational investments, such as the widespread electrification of key lines.

33. In our consultation on transforming the Highways Agency, launched in October 2013, we sought views on the alignment of strategic road and rail investment cycles. Views were divided between those opposed and those in favour. We recognise that aligning decisions and timing of road and rail investment plans has advantages and disadvantages, and will give further consideration to this. For the first RIS, trying to align the cycles would add unnecessary delay in delivering much needed investment in the Strategic Road Network. That said, our proposed legislation would allow a future government to align if they decided to do so. We will continue to consider strategic decisions on investment and funding across road and rail in a joined-up way where appropriate – and putting in place long-term investment planning frameworks for both road and rail will make this easier.

34. Major local transport infrastructure will now be delivered through Growth Deals. For the first time ever, housing, infrastructure and other funding are being brought together in a single pot, and put directly into the hands of local authorities and businesses to spend the way they know best. We therefore have a mix of local schemes, based on local priorities about what is needed to support the local economy to grow. At least a third of all the new transport schemes (including half of the road schemes) will help to open up commercial or residential development.
35. Growth Deals are not just about the investment. They are about a new and increasingly productive relationship between national and local agencies on transport. For example, Growth Deals include a commitment from the Highways Agency to develop a more proactive and collaborative approach to promoting national and local growth and to continue building strong relationships and working arrangements with LEPs and the Local Enterprise Partnership Network, in the same way as with local and combined authorities and the Local Government Association.

**Route-level planning**

36. While high level strategic plans can enable more effective and joined-up thinking about national policy and the balance of investments across modes, and between national and local networks, this cannot effectively join up detailed plans or decision-making on specific interventions in a way that takes account of local circumstances.

37. The identification of specific problems, consideration of specific options for intervention and decisions about long-term development of transport services in an area need to be taken at route or area level. This is where decision-makers can consider the need for intervention in the context of specific local circumstances, including existing transport networks, as well as local plans and priorities around transport, economic growth and land-use plans in a joined-up way, involving local authorities and communities, other transport operators, Local Enterprise Partnerships and other stakeholders.

38. The Highways Agency (HA) is currently developing route strategies for its network - similar in concept to the Route Utilisation Strategies and route studies for railways. These will provide a much improved approach to future planning for the strategic road network, and a clear evidence base on the need for and nature of future investment, forming the primary input to Road Investment Strategies, in the same way that the equivalent strategies in rail inform the development of the HLOS.

39. Through collaboration and engagement with stakeholders – including local authorities, LEPs and other stakeholders, such as road user organisations, freight interests and environmental bodies, as well as advice from Road User Focus – these will determine the nature, need and timing for future investment and include consideration of planned growth, including housing developments and land-use changes, together with planned improvements on wider transport networks.

40. In April the HA published a series of route strategy evidence reports which identified the performance issues and future challenges on routes, taking account of the local growth priorities put forward by stakeholders. The HA is now taking forward a programme of work that will identify outline solutions for a number of the challenges and priorities recognised in the evidence reports. Following further dialogue with stakeholders, these proposals will be brought together with existing commitments for investment in the network, and consolidated into route strategies setting out plans for operating, maintaining and improving the network.

41. This evidence-based approach means that future investment plans on roads will account for wider transport networks, help to support local plans and priorities for growth and balance national and local needs on the network.
Planning decisions on schemes

42. Following the consideration of options for intervention undertaken as part of the investment decision-making process, decisions about individual schemes are made through the planning process.

43. In March 2012, the Government published the National Planning Policy Framework (NPPF), which sets out planning policies for England and how they are expected to be applied. This provides guidance for local planning authorities and decision-makers, both in drawing up local plans and making decisions about planning applications, including those relating to local transport schemes.

44. The NPPF does not cover specific policies for nationally significant infrastructure projects, where quite particular considerations can apply. These are determined in accordance with the Planning Act 2008 and relevant national policy statements for major infrastructure.

45. In December 2013, the Government launched a process of public consultation on a draft National Networks National Policy Statement (NN NPS) – the planning policy statement for nationally significant road and rail projects, which will provide the clarity and certainty about planning policy needs for these projects. The draft NN NPS can be seen here:

46. This consultation closed in February 2014, and the Government is currently considering the feedback received and finalising the NN NPS, with a view to publishing a final version later this year.

47. Both the NPPF and the national policy statements are designed to ensure that development is sustainable and both recognise that different approaches and measures will be appropriate for different places.

48. One of the key strategic objectives set out in the draft NN NPS is to support integration across the transport modes. As part of the consenting process for these projects, scheme promoters are expected to collaborate closely with other network providers at an early stage. This expectation is made very clear in the draft NN NPS for the road and rail networks and will help support better integration across networks managed by different operators.

49. Together with the long-term investment planning frameworks for road and rail, the NN NPS will support faster, more effective delivery of much needed investment in our national transport infrastructure.

50. The Department is currently considering the recent Transport Select Committee report on the draft NN NPS and the responses to the public consultation and will respond in autumn this year.
Innovative solutions to achieving outcomes

51. A key benefit of the transformation of the HA into an arms-length, government-owned company is to allow the company greater flexibility and autonomy to determine the most efficient and effective ways to deliver the outcomes and other requirements identified by government. The performance regime for the company will seek to drive significant efficiency improvements. The company will be incentivised therefore to explore innovative options where these offer more cost-effective solutions for achieving required outcomes.

52. This will include the freedom to consider how to make best use of innovative technologies in making cost-effective improvements to network performance, building on the extensive work of the HA in rolling out smart motorways and using technology and traffic management to improve the flow of traffic. This also means collaborating with adjacent authorities to consider what initiatives or options for intervention off the SRN might represent the best way of improving the performance of the network.

53. In April 2014, we published Quiet Deliveries, new guidance to local authorities, hauliers, retailers and construction firms on making more out-of-hours deliveries to reduce congestion. Trials of out-of-hours deliveries were held by local authorities in 2010 and a temporary code of practice issued in 2012 by Transport for London for the Olympic Games. The new guidance builds on that by setting out the benefits from quiet deliveries and provides a comprehensive guide to establishing a scheme. A further section for community groups will follow shortly.

Post-implementation review of schemes

54. We agree on the importance of post-implementation reviews to evaluate the effectiveness of project investments. The HA already conducts the Post Opening Project Evaluation (POPE) of Major Schemes to identify the impact of completed schemes. This is important in informing current and future appraisal methods and scheme delivery and we are considering how best to ensure that, going forward, evaluation continues and is improved.

The Highways Agency

Recommendation 4: We are not convinced by the case for establishing the Highways Agency as a GoCo. Its remit will not be extended; it will not have new funding streams; and it will still be subject to changes in Government policy, while incurring ongoing oversight costs. We are not persuaded that increasing salaries will be a value-for-money way of increasing skills in the company. In that context, we note that the agency’s current chief executive has worked in both the private and public sectors. The proposed benefits, including the implementation of the five-year funding plans, seem achievable through better management of the existing Highways Agency. (Paragraph 44)

55. Achieving our aims for the network requires a world-leading public delivery and operations company that emulates best practice from comparable private sector bodies, delivers faster and more efficiently, and provides a better service to customers and gets the best possible value for money for taxpayers from this investment.
56. At present, the Highways Agency is unusual. Most other infrastructure that is operated within the public sector is run at arms-length from government, which is typically focused on making policy and delivering services. As an executive agency that forms part of central government, the Agency has less flexibility over day-to-day operations, procurement and contract management compared to infrastructure providers in other sectors.

57. Alan Cook’s 2011 report, *A Fresh Start for the Strategic Road Network* (the Cook Review),\(^8\) highlighted that “the unique position of the Agency, and its relationship with government, has failed to reflect the wider interests of our economy”, and recommended setting up the Agency as a government company.

58. Cook found that reforms could enable savings of 15-20% on strategic roads spending, but was clear that achieving these efficiencies would require reform to the Highways Agency that extended beyond simple changes of personnel or management style if they were to come close to achieving their potential. The problems he highlighted were deep-seated and structural, and securing the potential savings is a challenging goal.

59. The Government appreciates the views of the Committee about the case for reform of the Highways Agency. However, we do not believe that a further variant of the status quo is sufficient. There have been many decades of experience across different Governments which have demonstrated that the current arrangements have not encouraged a long term approach to planning infrastructure nor to secure funding. Funding has been changed arbitrarily and sometimes at very short notice. This comes with high costs for efficiency and for the quality of our road infrastructure (which is only rated 28th in the world by the World Economic Forum).\(^9\) This all constrains our competitiveness and economic growth. Without a fundamental change to the relationship between central government and the management of the network, the other elements of reform will not be able to take full effect.

60. Establishing the Agency as a legally-separate company, clearly independent from government, will ensure a transparent and binding relationship, that the funding settlement is robust and there is a clear ‘performance contract’ through the Road Investment Strategy. This sets out the government’s requirements and investment plans and sets the funding to deliver these. If the Highways Agency remained part of the Department then in practice it would be much easier to change the plans and funding. In contrast under the new business model, any change has to be transparent and go through a consultation.

61. We have seen the benefits that this approach can deliver from experience elsewhere. International comparisons show that operators in other countries can run their roads more efficiently at arms-length, with more certainty and flexibility – as seen in the Netherlands, Austria and Sweden, for example, where roads delivery bodies operate their roads at much

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greater distance from central government, with long-term funding certainty, meaning that significant efficiency savings have been possible.

62. Transforming the Agency is an essential part of delivering a step change in the performance of our road network, and vital to securing the efficiencies from stable, long-term funding and planning. Key benefits will be:

- A long-term strategic plan, underpinned by legislation, will provide greater visibility and certainty to the roads operator and its suppliers on the forward programme of investment and the size of the future market. This will ensure that reforms have credibility with suppliers, giving them confidence in an institutional framework in which government has done all it can to ensure that plans and funding remain stable for the long term.

- This will generate savings by making a longer term approach economically viable for contractors, insulating against short-term, non-strategic changes, and allowing the operator and suppliers to deliver through longer-term, lower cost contracts, more sequential programme planning and reductions in mobilisation / demobilisation of labour, thereby increasing the efficiency of their operations;

- This will also ensure that government remains focused on exercising strategic control and the operator has the necessary discretion and flexibility over day-to-day operations to deliver as efficiently and effectively as possible;

- Setting up the Agency as a new company operating under company law, with a well-established governance and financial framework, will reinforce the relationship with government with structures and disciplines that will support a more commercial approach. This will allow the Agency to undertake the necessary organisation and culture change to meet the step change demanded to deliver an ambitious investment programme and to develop into a world-leading road operator and delivery body.

63. It will also be important to ensure that the new company is resourced appropriately. If we are serious about delivering a step change in performance and efficiency, we will need to attract and motivate the skills and talent to achieve this. We appreciate the concerns raised by the Committee with regard to board remuneration. Government, as the shareholder, will approve Board pay and pay policy, will specifically agree any high salaries or incentive arrangements, and ensure that any remuneration and reward structure is acceptable and delivers value for money. There will be no question of the company being able to award itself large pay rises or bonuses.

**Recommendation 5:** An advisory or oversight body reporting to the Secretary of State would not be sufficient to scrutinise the performance of the proposed Highways Agency GoCo, because the GoCo would not be accountable to it. The same argument applies to establishing a panel of experts. Any such panel or body would lack the credibility of an independent regulator. The new scrutiny body must have the power of a full regulatory authority. An expanded ORR could undertake this role. (Paragraph 48)

64. We have given careful consideration to how far the new SRN monitor should hold a regulatory role. Independent oversight offers clear benefits. Research shows that continued downward pressure on costs, particularly when backed by a credible, independent body,
leads to ongoing savings in a range of infrastructure providers. Better data, better analysis and transparent reporting have helped drive better value and performance in several sectors.

65. However, there are also several features that are missing from the roads sector, which are standard in most types of regulated infrastructure. Road users, unlike the customers of regulated sectors, do not pay for their use of the network (other than at a small number of concessions or charged crossings). There is no need to regulate consumer prices, nor to act directly to ensure consumer protection. In institutional terms, the roads sector is 100% owned by Government and wholly funded by the taxpayer. There is no risk of excess profits being extracted from users of the network for the benefit of the company’s shareholders. As the owner of a government-owned company, the Secretary of State will have sanctions and incentives (such as changing the Board or taking greater control of decisions) which are not available for private regulated utilities.

66. We recognise that there are no market pressures acting on the company to drive down costs and continue to improve efficiency. Therefore there is still a clear need for a body with the power and skills needed to gather the latest information on the company and to report its performance, using techniques from the world of regulation to improve efficiency and control costs to the taxpayer. At a minimum, some of the methods used in economic regulation – notably benchmarking – will lead to a much clearer understanding of where the company is doing well and where it must do better. However there are still fundamental differences that mean that the role of the monitor is not the same as that of the regulators of other utilities, and will stop short of activities like setting a funding settlement for the road sector.

67. Both the Office of Rail Regulation (ORR) and Passenger Focus agree that their new responsibilities must go beyond passive monitoring, and have a role in independently holding the company to account. They must play an active role in securing more efficiency and greater responsiveness to user needs. Key elements of this regime are likely to include:

- Information from both monitor and watchdog used to shape the RIS at an early stage, and the monitor to provide continued advice throughout the process on whether the developing proposition is deliverable;

- Regular advice from the monitor about whether the company is abiding by the conditions of the licence, and whether the Secretary of State should take action;

- A statutory right for the monitor to require the company to turn over information on its costs and performance. This will form the foundation of comprehensive benchmarking of company performance, creating a properly researched link between efficiency and outputs for the first time;

- Both bodies being able to carry out their own investigations into matters where the company has other questions to answer.

There may also be a case for the monitor to have the necessary power to be able to take direct action for enforcement against poor performance. We note some of the amendments brought forward during the progress of the Infrastructure Bill, which consider further powers for direct enforcement such as the ability to fine. Given the wider
framework, the ultimate sanction (e.g. to remove the licence) will need to remain with the Secretary of State, but short of this there may be a case for giving the monitor a more formal role involving direct enforcement.

68. Overall, this represents the best quality of advice that has ever been created on the roads, fully equal to the research that would be carried out by an economic regulator. While decision-making will remain with the Secretary of State, provisions in the Infrastructure Bill will place him under a duty to take account of the findings of both bodies when making choices about the future of the network. This represents the best of both worlds, making the system transparent without sacrificing responsiveness.

**Recommendation 6:** We note that Passenger Focus has a record of successfully expanding to take on additional duties and therefore recommend extending the remit of Passenger Focus to include scrutiny of the proposed GoCo. It must be subject to a duty to represent the concerns of all SRN users to the DfT and should set up a panel of road user stakeholders to monitor its work. (Paragraph 50)

69. The Government welcomes the Committee’s support for Passenger Focus and has been working on options to expand Passenger Focus’s role in the light of feedback from the consultation. The organisation will form a separate roads team with its own independent branding. This ‘Road User Focus’ unit will carry out its own research within the organisation and will have a full-time commitment to roads issues.

70. We agree entirely with the Committee that Road User Focus needs to consider all categories of road users and not just motorists. The views of these users are important in deciding whether the network is functioning well. Freight and business users are essential to understanding the economic impact of the network, while motorcyclists, cyclists and pedestrians are central to any understanding of network safety. Passenger Focus also support this conclusion, and are already working to make sure that their understanding extends beyond the largest group of SRN users.

71. The remit of Road User Focus will make sure that it takes account of a wide range of views and their stakeholder panel will represent a broad range of road users, to make sure that the unit’s priorities match with the experience of all users of the network. The Chief Executive of Passenger Focus is already in contact with a number of organisations, inviting them to take an early role in helping to shape the way that Road User Focus will approach this work.

**Recommendation 7:** The proposed new Highways Agency GoCo must have a realistic performance specification for engagement with its stakeholders. This must instil in the GoCo a view of road users as customers and other organisations as partners in developing roads for freight and passengers, as part of an integrated transport network. This specification must be agreed with local authorities, LEPs and road user groups before the GoCo is set up. (Paragraph 55)

72. The performance specification contained in the RIS will set the specific expectations for future SRN and company delivery and performance, including metrics, and where appropriate, targets, which tie back to the RIS’s strategic vision and investment plan.
73. The Government welcomes the Committee’s views on the importance of the company having both a meaningful performance specification, and a good understanding of the needs of its users and the businesses and communities that it serves. Without this understanding, the company will struggle to effectively operate, maintain and improve the SRN.

74. As noted in April, in our response to the consultation on transforming the Highways Agency, we see a clear and specific need for the company’s governance and performance regime to build in assurance that the company forges open and effective working partnerships. This will be critical to the company’s delivery of its core statutory duties and wider responsibilities – in the day-to-day management and operation of the road network as well as planning future development. We confirmed our intention to put in place specific requirements on the company to co-operate with local authorities, emergency services and other stakeholders.

75. We will engage with stakeholders on the development of the performance specification prior to issuing it. We recognise that it will not be feasible to agree this with all stakeholders, given that there will different views about priorities. However, the route strategy process, feasibility studies and other channels will provide important opportunities for stakeholders to feed in to the development of the RIS as a whole. We have recently published further details of our proposals for how the RIS will be set, which can be found at: https://www.gov.uk/government/publications/setting-the-road-investment-strategy-now-and-in-the-future

**Financing the future**

 Recommendation 8: The Minister was very clear about the DfT’s decision not to introduce charging to the road network, apart from the Heavy Goods Vehicle (HGV) user charging scheme that was recently implemented. However, if the traffic forecasts are correct, the Government will need to increase investment in the road network substantially during the next decade. Simultaneously, income from fuel duty is likely to decline as use of fuel-efficient low-emission vehicles increases. Investment in the road network will require new funding streams. This is a challenge that must be addressed. However, a consensus would be required to introduce any road user charging scheme across the SRN as an alternative to road taxation, and the many issues involved would have to be resolved. (Paragraph 62)

76. The Government agrees that there is a strong case for significant investment in road infrastructure, and has already committed to a transformational level of investment in our roads – complementing investments in HS2, rail and local transport.

77. This investment is essential to address historic under-investment and existing problems on the network, to support growth, jobs and an internationally competitive UK economy. Supported by reforms to tackle historic problems of short-term decision making and uncertainty in funding, and strengthen delivery and accountability, this investment will deliver a strategic road network befitting of a modern, vibrant and progressive country and economy, which gives road users the best possible quality of service and supports broader economic, environmental and safety goals.
78. We are confident that our current programme of reforms represents the best model for creating a more arms-length, independent and efficient public body with the right skills, culture and flexibility to deliver for the economy, for road users and for the taxpayer. These reforms are about getting better value for money by making better use of public investment, by ensuring the network is managed as efficiently as possible.

79. The Government's policy is not to introduce national road pricing to manage demand on the strategic road network. The Government will consider tolling as a means of funding new road capacity on the strategic road network. New road capacity would include entirely new roads and existing roads where they are transformed by an improvement scheme. River and estuarial crossings will normally be funded by tolls or road user charges.

80. As we made clear in Action for Roads, published in July 2013, there are other business models which could offer more flexibility and efficiencies, but this is an issue for the longer term and the Government recognises that more radical reform will need to take into consideration detailed discussion with road users. We will continue to review the case for further reform of the management of the roads network, in consultation with road user organisations, business and other stakeholders.

81. Over summer and autumn 2014, the Government will proceed with taking forward legislation to set up the Highways Agency as a government-owned strategic highways company, with the aim of the new company going live in spring 2015. Alongside this, we will continue to develop the first Road Investment Strategy (RIS), and to make available further details about the RIS, before publication in autumn 2014.