National Audit Office

Report
by the Comptroller
and Auditor General

Department for Transport and Highways England

Progress with the Road Investment Strategy

HC 1056 SESSION 2016-17 22 MARCH 2017

Key facts

£841m (7%)

the amount by which forecast costs exceed available capital funding for road period 1, as at September 2016

67

road enhancement projects (out of 112) scheduled to open for traffic in road period 2 (2020-21 to 2024-25) or later, including 54 scheduled to start construction in the final year of road period 1

16

projects that Highways England had identified as at risk of not delivering value for money as at February 2017

£11.4 billion	capital funding initially provided over five years for items such as road enhancement and renewals in the first Road Investment Strategy, subsequently increased to £11.9 billion to support new projects or earlier delivery of existing projects
£1.2 billion	efficiency savings target set for Highways England over the five years of road period 1 (2015-16 to 2019-20)
112	major road enhancement projects in the first Road Investment Strategy, such as smart motorway upgrades and upgrading single-carriageway A-roads to dual carriageway
6	major road enhancements which opened for traffic by September 2016
£8.3 billion	effectively committed to road enhancement projects in road period 2 (2020-21 to 2024-25)

Summary

1 Investment in England's strategic road network (motorways and major A-roads) fell sharply from the mid-1990s. In 2013, the government announced a series of Roads Reform measures, designed to improve the management and performance of the network. The main aspects of Roads Reform were to:

- establish Road Investment Strategies, with approved funding covering five-year periods, known as 'road periods'. The first strategy covers road period 1, which runs from April 2015 to March 2020; and
- transform the Highways Agency into Highways England, a government-owned company, to deliver the Road Investment Strategies.

2 In 2014, the government announced details of the first Road Investment Strategy, a programme of work for road period 1. The main objectives of the first Road Investment Strategy are to:

- support economic growth;
- establish a safe and serviceable network;
- create a more free-flowing network;
- improve the environment; and
- improve accessibility and integration of the network.

3 The government committed £11.4 billion of capital funding to the strategic road network for the five years of road period 1. Of this, £7.7 billion was allocated to road enhancement works and ring-fenced funding for projects designed to, for example, promote cycling, improve air quality and encourage economic growth. £3.7 billion was allocated to renewing the network.

4 The roles and responsibilities of the main organisations involved are as follows:

- **The Department for Transport** (the Department) sets the strategic goals for the road network and oversees Highways England's delivery of road investment.
- **Highways England** is responsible for the enhancement, renewal, maintenance and operation of England's strategic road network.
- **Highways Monitor, part of the Office of Rail and Road,** monitors and reports to the Secretary of State for Transport on Highways England's performance.

Scope of the report

5 The main focus of this report is the 112 major enhancement projects, which account for 57% of planned capital expenditure, and represent a material step-change in what is required from Highways England. This report looks at:

- the background to the Road Investment Strategy;
- the development of the Road Investment Strategy, Highways England's progress so far in delivering the enhancement projects, and risks to delivery, affordability and costs relative to benefits; and
- the steps that Highways England and the Department are taking to mitigate those risks, and their plans for future Road Investment Strategies.

Key findings

Development and delivery of the first Road Investment Strategy

6 **The first Road Investment Strategy represents a significant improvement in the efficient management of the strategic road network.** By developing a five-year programme of work with guaranteed funding, Highways England has the opportunity to work more effectively and efficiently. A long-term strategy and improved certainty of funding is intended to enable contractors to plan better and help Highways England to secure lower-cost, long-term contracts with suppliers. The Department expects it to achieve £1.2 billion of efficiencies over road period 1. Following the announcement of additional funding in the 2013 Spending Round, the Department announced a programme of 112 road enhancement projects in December 2014 and passed the Infrastructure Act in February 2015, which established Highways England (paragraphs 1.3, 1.5 and 1.6).

7 **The speed with which the Department designed the first Road Investment Strategy created risks to value for money and deliverability.** The Department put together both the Road Investment Strategy and the legislation to create Highways England as a new government-owned company in 17 months, driven by the government's desire to publish the strategy before the May 2015 general election (the equivalent planning process in Network Rail takes around 30 months). As a result:

- **the Department selected the enhancement projects without knowing enough about whether the portfolio represented best value.** It did not integrate plans for enhancement, renewal and maintenance work, which could have saved money and reduced disruption for road users. The Department selected projects which address longstanding issues on the road network. It carried out a broad, high-level assessment of costs and benefits of the whole portfolio, which estimated that the portfolio could produce benefits of up to £7 for every £1 spent. However, it only conducted limited analysis for many of the potential projects to support this (paragraphs 2.9, 2.10 and 2.13); and

- **of the 112 enhancement projects, 54 are scheduled to start in 2019-20, which would cause significant disruption to the road network, increase prices and put pressure on resources at Highways England.** When the strategy was announced, 69 of the 112 enhancement projects were at an early stage of planning, and road projects typically take around five years from inception to the start of construction. The Road Investment Strategy states that Highways England planned to begin construction on all of these before the end of March 2020 (paragraphs 2.11 and 2.12).

8 **The Department did not make it sufficiently clear when it announced the Road Investment Strategy that the 112 enhancement projects could be subject to change or cancellation.** Because the majority of projects were at a very early stage of development, there was significant uncertainty about their affordability, deliverability and potential benefits relative to costs, with the potential to bring these commitments into doubt. While it noted that these commitments were subject to, for example, value-for-money tests, this risk was not communicated explicitly in public announcements. By giving the impression that it had made a firm commitment to deliver the 112 projects, the Department may find it more difficult to cancel, delay or modify them (paragraph 2.2).

9 The Department chose to set a capital programme which was forecast to exceed funding by £652 million and this has since increased to £841 million. Over-programming had been standard practice in the Highways Agency when capital funding was provided on an annual basis, as it was expected that some projects would be delayed or drop out of the portfolio as it was refined. The Highways Agency would typically over-programme by about 10%, and the portfolio of 112 enhancement projects was broadly in line with this. The original investment plan did not include some capital costs such as post-project evaluations, capital investment in IT, costs associated with transforming the organisation, and works running over from 2014-15. Highways England now estimates that these will cost £409 million. The cost pressure initially built into the programme was therefore higher than the Department understood it to be, and it had increased further to £1.2 billion in March 2016. Highways England has made some progress in reducing the cost of the 112 projects but, because of the additional costs, and the original over-programming, by September 2016 forecast expenditure for the enhancements was £12,727 million, which still exceeded available funding of £11,886 million by £841 million (paragraphs 2.15 to 2.17).

10 Highways England is now reviewing the enhancement programme to improve value for money and deliverability, and make sure the programme is affordable.

- As at February 2017, Highways England had identified up to 16 projects which present a risk to value for money. Highways England and the Department are exploring a number of ways to manage this risk, including revising project design, merging projects on the same stretch of road, cancelling projects and delaying projects to enable further assessment of benefits.
- Highways England has also started work to address the risks caused by the high number of project starts that it scheduled for 2019-20. The Department has not yet decided how it will change the delivery schedule. So far, Highways England has also developed options to bring forward the start dates of up to 10 projects and to push back the start dates of up to 19 projects into the first years of road period 2. The Department and Highways England currently expect that this will not significantly delay delivery of the expected benefits to road users.

The decisions the Department takes in response to these reviews could help reduce the current cost pressure, but it is not yet clear by how much. It is likely Highways England and the Department will need to continue to carry out further work in order to bring the portfolio within the available funding by the end of the road period (paragraphs 3.2 to 3.8).

11 **To date, Highways England has completed and opened six projects to traffic on or ahead of schedule.** However, these projects were completed slightly over budget. Highways England has started construction on a further 19 projects on schedule, and currently forecasts that it will complete 16 of these 19 projects on or ahead of schedule. Highways England forecasts that these projects will be delivered around 5% over budget (paragraphs 2.4 to 2.6).

12 **Highways England met its efficiency savings target of £33 million in 2015-16, but meeting its overall target of £1.2 billion over five years may still prove challenging.** Highways England expects to exceed its target of £139 million for 2016-17. However, Highways England's plans show that it has to achieve 70% of its savings target in the final two years of the road period. Highways England has taken steps to incentivise and promote its project teams to implement savings and has developed plans for how to identify, evidence and measure efficiencies (paragraphs 2.19 to 2.21).

13 **Highways England faces challenges in recruiting the specialist resources it needs to contract for and manage enhancement projects.** Highways England plans to procure contracts for 57 major enhancement projects during 2017, compared with six in 2016, but is currently 19% below its target headcount for procurement and commercial specialists. Demand for these skills is high, so there is a risk that Highways England will struggle to recruit sufficient skilled staff. Highways England has been filling gaps with consultants and interim staff, but these cost on average three times more than permanent employees. The impact of a shortage of skills will be more significant if decisions are not taken to reduce the number of projects due to start in 2019-20 (paragraph 3.15).

Preparing for future Road Investment Strategies

14 **Limited time and analytical capability could restrict Highways England's ability to develop the second Road Investment Strategy effectively.** The Department and Highways England are currently putting together the second Road Investment Strategy and are doing so in a more robust and systematic way than the first. However, developing a robust delivery plan is a major undertaking and Highways England has only nine months before it needs to publish its initial report on the priorities for improving the strategic road network during road period 2. Highways England is working on developing the analytical capability it requires. The Department and Highways England are also reviewing the enhancement projects in road period 1. Although these two pieces of work have significant interdependencies, the Department and Highways England are currently carrying them out largely as separate exercises (paragraphs 3.9 to 3.15).

15 **The 66 projects carried over from road period 1 will reduce Highways England's opportunity to take a fully strategic approach to the second Road Investment Strategy, due to be announced in early 2019.** Highways England currently forecasts that the construction work begun in road period 1 will cost £8.3 billion to complete in road period 2, an increase of £0.5 billion from the original forecast. Ensuring a smooth profile of work was identified as vital in improving efficiency in the highways sector. Highways England is working on this, but there is a risk that the uneven profile of work in the first Road Investment Strategy will be repeated in road period 2 (paragraph 3.10 and 3.11).

16 **Highways England is at an early stage in implementing the systems and processes it needs to manage the enhancement portfolio effectively.** Highways England has established a change programme to improve its understanding and management of the overall portfolio of road investments, and has recruited experienced staff to lead and support that work. However, on current plans, it will not have the full capability it needs until the start of the second road period, starting in April 2020 (paragraph 3.16).

17 **The Department and Highways England will need to ensure that risks are being managed effectively as the enhancements portfolio increases in scale and complexity.** The scale of the challenge for Highways England is now increasing. Procurement for 57 projects is beginning later in 2017, including some large, complex projects such as the Stonehenge tunnel, with further large, complex transformational projects being planned. In rail, the Department and Network Rail monitor performance across the Network Rail portfolio of investment through a joint portfolio board. In addition, both our work and Dame Colette Bowe's review of Network Rail's investment programme suggest that individual large, complex projects can benefit from being managed and governed separately (paragraphs 3.18 to 3.20).

Conclusion on value for money

18 The Road Investment Strategy announced by the Department in December 2014 is an important step towards better long-term planning. However, the speed with which it was put together created risks to deliverability, affordability and value for money. Highways England is beginning to address these risks, but we are now nearly two years into road period 1. If the Department and Highways England do not take decisive action before Highways England publishes the next iteration of its delivery plan in summer 2017, there is a risk that the first Road Investment Strategy will not deliver optimal value, and that current challenges are carried forward into future road investment periods.

19 In order to meet the current challenges the Department and Highways England will need to consider delaying or cancelling some of the 112 projects. While this may mean that some stakeholder expectations are not met, value for money depends on the Department and Highways England proceeding, in this and in future road periods, with a realistic and affordable plan, and focusing resources on those projects which offer the best value to taxpayers and road users.

Recommendations

a **The Department and Highways England should agree an updated delivery plan for the remainder of road period 1**, including an updated programme of road enhancement projects that is deliverable, affordable and represents value for money. The plan should include:

- the latest cost estimates compared with available funding, and plans for how cost pressures will be managed; and
- a clear statement setting out the impact of the updated delivery plan on the work that is to be undertaken in road period 2.

b When announcing the second Road Investment Strategy, the Department and Highways England should be clear about:

- **which projects they are committed to**, and which they intend to deliver subject to further development and analysis;
- **the level of certainty about the estimated costs, scope and delivery schedule** of the projects; and
- the likely **impact on future road periods**.

c **Highways England and the Department should ensure that the second Road Investment Strategy marks a step towards establishing a stable, rolling programme of investment.** It might not be possible for this to be fully achieved with the second strategy, but the Department and Highways England should have a clear long-term plan for achieving a smooth profile of capital investment in the road network.

d **The Department should re-evaluate its approach to the oversight of Highways England** as the scale and complexity of Highways England's investment portfolio increases. In particular, the Department should consider:

- how it gains assurance about the affordability, deliverability and overall value for money of the enhancement portfolio, including, for example, considering establishing a joint portfolio board like that which the Department now uses to monitor Network Rail's portfolio; and
- whether it and Highways England should monitor and govern large-scale, complex and transformational projects outside its main portfolio.