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Tricia Hayes

Director General, Roads, Devolution

And Motoring

Department for Transport

Great Minister House

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10 June 2016

Dear Tricia,

ORR's initial assessment of Highways England's performance in 2015-16

I am writing to inform you about our initial assessment of Highways England's performance in the year to 31 March 2016, the first year of Road Period 1.

Because our findings are important for Highways England, I am also copying this letter to Colin Matthews and Jim O'Sullivan at Highways England.

Our assessment is summarised below with further details in the two supporting annexes. It is largely based on our analysis of draft year-end information provided to us by Highways England in early May and work undertaken by us throughout the year. As requested in our monitoring reporting guidelines, the company has agreed to publish statements on its performance in June. Our own first full annual assessment of the company's performance in July will then be laid in Parliament in July.

Our assessment of performance in 2015-16

Our overall assessment is that Highways England has delivered its RIS1 requirements for 2015-16. The company has delivered against all its Key Performance Indicator targets and its capital investment commitments during the year. In particular, we are pleased to note:

- Network availability, pavement condition and clearance of motorway incidents were above target.
- Efficiency improvements (£58m) were ahead of the company's internal target for the year, though this represents only 5 percent of the requirement to deliver £1.2bn of efficiencies by the end of the road period. We are currently in the process of assessing these efficiencies which we will report in our annual assessment.
- User satisfaction was 89.3 percent. While this is below the target of achieving 90 percent user satisfaction by March 2017, this represents the first annual improvement in satisfaction since the survey was introduced in its current form.
- The company has produced a comprehensive plan to deliver a safer network and provisional data points to a reduction in the number of killed and seriously injured on the network in 2015 when compared to the previous year.
- Highways England has delivered the major scheme commitments which it set out in its Delivery Plan for 2015-16 including opening five schemes to traffic. It has also started construction of eight further schemes, exceeding its plan to start seven.

However, while pavement condition has been maintained above target, Highways England nevertheless needs to develop a more robust approach to managing the renewal of its network:

- The company's delivered volumes of renewals work shows significant variance from its plans. Its explanations for these variances to date have been limited.
- The profile of renewals expenditure shows an increase at the end of the year and indicates that the company is not yet optimising efficient delivery.
- The company has not been able to evidence its processes for identifying and prioritising its maintenance and renewals work and it must now set out a plan for improvement in the first road period.

In 2015-16, the company has carried out preparatory work on the governance and processes for identifying and delivering improvements using its ring-fenced investment funds. It has also started to deliver some improvements, with most significant expenditure on cycling schemes. However, the company has not fully delivered all of the cycling schemes that it committed to in its Delivery Plan.

Delivery across Road Period 1

For some outcome areas Highways England has been set targets for later in, or at the end of, the road period:

- Highways England is tasked with making the network safer, including reducing the number of killed and seriously injured by 40 per cent by March

2020. Safety of road users and workers is a primary concern for us and Highways England, and needs continued focus. The company has begun to implement its health and safety plan and will need to continue to monitor its delivery and impact closely to deliver the required safety improvements.

- The company needs to set out more robust plans to demonstrate how it will deliver its performance targets in the remainder of the road period for user satisfaction, mitigating noise important areas and efficiency.

Both we and Highways England recognise¹ that the company needs to improve the management of its portfolio of capital works to ensure that the Investment Plan is delivered in the remainder of the road period. In particular, the company needs to demonstrate how it is managing risks to delivery of the Investment Plan and how it is ensuring that it is taking optimised investment decisions across the portfolio.

At the end of March 2016, the company provided us with its assumptions for the costs of its capital programmes and its assumptions for key milestone delivery dates for its major schemes (part of the “baseline” against which we will monitor delivery).

It also provided its current forecasts to the end the road period. We welcome Highways England’s open engagement on this, but have the following concerns:

- Highways England has not yet fully evidenced how its baseline and forecasts have been developed;
- Highways England’s forecast expenditure is currently higher than its agreed funding, and although this funding gap may be managed down, the company has not yet provided assurance about how this will be done;
- The company’s assumptions for major schemes include a very significant increase in schemes starting construction in 2019-20, which presents a risk to delivery in the first road period and is likely to have an impact in the second road period. The company has not set out how it is monitoring deliverability and managing associated risks;
- Highways England’s baseline assumes a small percentage of total scheme expenditure during the first roads period on those schemes announced in the RIS and Autumn Statement 2014. The company needs to confirm that its proposed baseline is aligned with stakeholders’ expectations; and
- Highways England has not provided evidence to support its proposed renewals expenditure and how it is taking an integrated approach to managing its assets and delivering the investment plan.

Highways England is working on improvements to the management of its portfolio of capital investment and we will work with the company to make sure that these improvements are delivered. This is a key priority for 2016-17. We are aware of work underway to further develop the capital programme during 2016-17. We would expect any resulting changes to be managed through the agreed change control process.

¹ Highways England’s response to ORR’s report on the company’s supply chain capability is here: <https://www.gov.uk/government/news/highways-england-response-to-the-office-of-rail-and-road-orr-report-on-their-supply-chain-capability>

We also have concerns about the breadth and quality of information that Highways England reports to us in a number of areas; notably, asset information and unit costs. These form key parts of a Coordinated Data Improvement Plan (CDIP) which Highways England is developing. During 2016-17 we will review delivery of the improvement plan which is an important step to improving the company's asset management capability more widely.

Engagement between Highways England, ORR and wider stakeholders

Overall our engagement with Highways England has been positive. When we have met with the company's operational staff they have demonstrated their knowledge and capability while engaging honestly about the challenges that the company faces. However, we would like Highways England to improve the processes it uses to engage with us and meet our requests for information. We would also like to see greater senior level focus on compliance with the company's licence so that the Company and its Board is fully sighted ahead of any need for ORR action, and there are therefore no surprises

Highways England's licence sets out a requirement for the company to cooperate in an open and transparent way. Our consultations have shown that lack of transparency is a common concern amongst stakeholders. While Highways England has progressed the development of its plans and strategies, we are concerned that some of these are too high level to provide sufficient detail to stakeholders on the company's strategic direction and specific work plans for the road period.

Our view is that Highways England particularly needs to increase the transparency of its plans and strategies in the areas of safety and the environment. We have discussed measures that could be taken by Highways England to enhance its transparency and we expect the company to do more to define its approach to transparency with clear plans to improve in priority areas.

Looking forward to 2016-17

As we move into the second year of Road Period 1, we look to Highways England to further develop and embed its processes for delivering and reporting against its RIS1 requirements. Our expectation is that by the end of 2016-17, Highways England's internal processes will have sufficiently matured so that we can have greater confidence in the information with which we are being provided.

Work has already commenced on the second road investment strategy (RIS2) and, consistent with the company's licence obligations, Highways England's contributions to RIS2 will increase significantly over the next year. This is another area where we would like early engagement with ORR, consistent with Highways England's licence requirements.

Our five key areas of focus for 2016-17 will be:

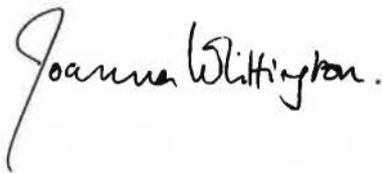
1. Continuing to monitor closely KPI performance;
2. Our concerns being addressed about the capital baseline; in particular, risks to delivery of the investment portfolio and renewals works for the road period as a whole;
3. Implementation of the Coordinated Data Improvement Plan to improve asset and unit cost information;
4. Collaborative work to develop key RIS2 workstreams including the Strategic Road Network initial report and efficiency review; and
5. Enhanced transparency with stakeholders.

Concluding remarks

Our conclusion is that Highways England's performance has been largely positive in 2015-16 and our sense is that the monitoring processes that we have put in place are generally working. However, the performance requirements for 2016-17 are more challenging and the company has more work to do to develop its processes for delivering and reporting against these requirements.

We look forward to continuing our constructive engagement with Highways England over the months and years ahead.

Yours sincerely,

A handwritten signature in black ink that reads "Joanna Whittington." The signature is written in a cursive, flowing style.

Joanna Whittington
Chief Executive

Annex A: Performance Specification delivery on a page

Outcome	KPI and target	Performance in 2015-16	RAG 2015-16	RAG RP1
Making the network safer	Killed and seriously injured ● Target: 40% reduction by end of 2020	Unvalidated data to quarter 3 indicate likely to be on track to meet target	Green	Amber
Improving user satisfaction	Road user satisfaction ● Target: 90% by March 2017	89.3% satisfaction	Amber	Amber
Supporting the smooth flow of traffic	Network availability ● Target: 97% lane availability in any one rolling year	98.4% availability	Green	Green
	Incident clearance ● Target: 85% of motorway incidents cleared within one hour	86% cleared within one hour	Green	Green
Encouraging economic growth	Average delay (seconds per vehicle mile) Target: No target set	8.9s (worsening trend in recent years. New data source makes comparison to 2014-15 unreliable)	Amber	Amber
Delivering better environmental outcomes	Noise important areas mitigated ● Target: Mitigate at least 1,150 noise important areas by 2020	49 delivered	Amber	Amber
	Improved biodiversity ● Target: Publish biodiversity action plan	Target met: action plan published in June 2015	Green	Green
Helping cyclists, walkers and other vulnerable users	Number of new and upgraded crossings Target: No target set	240 delivered	Amber	Amber
Achieving real efficiency	Capital expenditure savings ● Target: Total savings of at least £1.212 billion on capital expenditure by 2019-20	£58m of efficiencies identified, under review	Green	Amber
	Progress of work, relative to delivery plan Target: No target set	Delivery in 2015-16 largely to plan, risks to delivery later in the road	Green	Amber

		period		
Keeping the network in good condition	Pavement condition	Target: 95% of pavement requiring no further investigation for possible maintenance	95.4% requires no further investigation	Green Green

Annex B: Investment Plan delivery on a page, 2015-16

2015-16 commitments	Committed date	Actual date
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Major schemes starting construction

A160/A180 Immingham	2015-16, Q1	2015-16, Q1
A21 Tonbridge to Pembury	2015-16, Q1	2015-16, Q1
M1 J13 – J19	2015-16, Q3	2015-16, Q3
M5 J4a – J6	2015-16, Q3	2015-16, Q3
M6 J16 – J19	2015-16, Q3	2015-16, Q3
A50 Uttoxeter	2015-16, Q3	2015-16, Q3
M5 Junctions 5 to 7	2015-16, Q3	2015-16, Q3
A43 Abthorpe junction	Late 2016	2015-16, Q4 Ahead of schedule

Major schemes opened to traffic

A14 Kettering bypass widening	2015-16, Q1	2015-16, Q1
A453 widening	2015-16, Q2	2015-16, Q2
M1 J28 – J31	2015-16, Q4	[2015-16, Q4]
M6 J10a – J13	2015-16, Q3	2015-16, Q4
M1 J39 – J42	2015-16, Q3	2015-16, Q3

2015-16 commitments	Planned Volume	Actual volume	Comment
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Renewals (subset)

Pavement (lane miles)	1,200	1,468	Improved planning and assurance over delivery required
Vehicle restraint systems (linear metres)	178,000	144,530	
Structures – bridge joints (number)	222	533	
Structures – waterproofing (square metres)	20,000	55,637	
Drainage (linear metres)	231,000	277,305	
Geotechnical (linear metres)	46,000	40,293	

Ring-fenced investment funds

Environment, Air quality, Innovation, Growth & Housing,
Cycling, safety & integration

Governance and processes established, limited expenditure to date. Some deferral of cycling schemes