John Larkinson
Chief Executive

Emma Ward
Director General Roads, Places and Environment Group
Department for Transport
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19 June 2023

Dear Emma,

Initial assessment of National Highways' performance in 2022-23

Every year I write to you with ORR’s initial assessment of National Highways' performance to inform your decision making at National Highways’ renumeration committee.

The messages in Annex A contain our current view of National Highways’ performance from 1 April 2022 to 31 March 2023, the third year of the second road period. We have provided a summary against the key performance indicators in Annex B.

Our view is based on our analysis of draft year-end information provided to us by National Highways and work undertaken throughout the year. Our final position will be published in July 2023 in our full annual assessment of the company’s performance.

I am copying this letter to the Chair and CEO of National Highways. We will publish this letter alongside our annual assessment in July 2023.

Yours sincerely,

John Larkinson
Chief Executive

Annex A: Key messages

Despite financial uncertainties, National Highways has delivered well for road users. The company worked with ORR and Transport Focus to reinstate the strategic roads user survey that was suspended during the Coronavirus (COVID-19) pandemic. It supported reliable journeys on the network by meeting its targets for incident clearance and network availability. Continued focus is required in this area as traffic levels increased in the last year, leading to an increase in delays. National Highways also met its target for delivering a well-maintained and resilient network. The company improved its performance in notifying users of road closures, but further work is required to achieve challenging targets set for the end of the road period.

Key message 1: Efficiency

In the reporting year, National Highways delivered more efficiently and has met its March 2023 milestone towards its 2025 target of £2.1 billion. The company is forecasting that it will meet that target. However, efficiency performance for the remainder of the second road period is uncertain. National Highways must demonstrate it has a clear understanding of how to meet its key performance indicator target despite changes in outputs, cost/delivery risks and a challenging enhancements programme for the remainder of the second road period.

National Highways reports that it met its March 2023 cumulative efficiency milestone, after adjusting for inflation above the funded level. We have pressed the company to improve the quality of its efficiency evidence and worked with it to ensure that its inflation adjustment is robust. National Highways has made good progress in these areas and we found that the company's evidence supports the reported position.

For the efficiency key performance indicator (KPI) target at the end of the second road period (RP2), National Highways has also reported that it is on track to meet the target but notes that the position is uncertain. In the next two years, the level of inflation that the company will face is uncertain, and, in addition, to meet the target the company will need to deliver a challenging programme of works.

National Highways must ensure that it has a clear understanding of how inflation is impacting all areas of efficiency and other external cost pressures (such as non-recoverable VAT) are impacting its business. Following the announced changes to enhancements schemes in March 2023 the efficiency KPI could be revised to reflect adjusted volumes of work. The company must then show us how it will mitigate cost and delivery risks that could impact its RIS2 efficiency performance.

Key message 2 – Enhancements portfolio

National Highways did not meet its revised 2022 delivery plan enhancements commitments. The company agreed substantial changes to its commitments with government because of factors outside its control, for example because of statutory planning delays. However, it also missed four of its 21 in-year commitments because of factors within its control. Forecast costs have increased due to delays and inflation, as a result, the company faces ongoing risks to delivery for the remainder of the second road period. It must continue to demonstrate to us that it is improving its capability to deliver, learn and appropriately assess and mitigate its risks. The second road investment strategy enhancements portfolio, as published in 2020, has significantly changed and it is unlikely that the expected user benefits will be realised in the intended timescales.

National Highways has not met its revised 2022 delivery plan commitments to deliver all its start of works (SOW) and open for traffic (OFT) commitments.

Some of the factors for this were beyond National Highways' control, such as statutory planning delays. The company utilised formal change control processes to agree with government new delivery date commitments for these schemes.

Some unachieved commitments were due to factors deemed to have been within National Highways' control and have been recorded as missed commitments. For its commitments in the reporting year, the company missed one of its nine SOW commitments and three of its 12 OFT commitments. In total for the second road period (RP2), there have been seven schemes (two for SOW and five for OFT) that have missed their commitments. The company submitted data for the end of March 2023 that suggests the majority of reasons for these missed commitments are procurement issues, specifically linked with supply chain management and commercial contract management. We are seeking action from the company to ensure lessons are learnt and embedded into the business.

As you'll be aware, since the start of RP2, we have seen several risks affect the enhancements portfolio and the company's ability to achieve its SOW commitments. We anticipate these continuing for the remainder of RP2 and beyond. The key risks to portfolio delivery have been:

- schemes gaining planning consent, in particular development consent orders (DCOs). Several schemes have had legal challenge. The key reasons for the challenges are around the consideration of cumulative carbon for the portfolio and localised environmental concerns. Whilst these issues are likely to be outside of National Highways' control, they cause programme delay that could require National Highways and government to agree further changes to the delivery plan. We will continue to hold the company to account to deliver any revised commitments.

- National Highways forecasts that the costs for delivering the second road investment strategy (RIS2) enhancements schemes have risen by 13% from £25,388 million to £28,613 million in the reporting year, caused by delays and inflation. The company has mitigated this inflation driven cost pressure on the RIS2 budget by moving the delivery of some schemes into the third road period (RP3). These scheme delays and rescheduling have meant that the company underspent its reporting year capital budget by £357 million (10%). However, it has agreed with government to move the funding into later years of RP2 to align with anticipated construction programmes.

Key message 3 – Asset management

In our last annual assessment, we challenged National Highways to demonstrate to us that it is optimally renewing its network. This has been a concern of ours for a number of years as it affects the longer-term efficiency and sustainability of the strategic road network. In the reporting year, National Highways introduced a new reporting tool which has improved the information we can see about the decisions that the company takes regarding renewals on the network. This is a big step forward. Later in 2023, we expect to be able to draw firmer conclusions on whether the company is optimising its renewals decisions.

In our last annual assessment, we raised concerns that National Highways' reporting of capital renewals was based on asset volumes renewed against annual delivery plan targets and spend. Whilst this provided us with an indication that work was delivered, it did not tell us whether the work addressed an asset need. Concerned that the company may compromise long-term efficiency and asset sustainability in pursuit of short-term benefits, we challenged it to demonstrate the alignment between its policy and what is delivered.

In July 2022, we made it clear to National Highways that we will hold it to account for producing its new renewals reporting tool; the Capital Delivery Management Tool (CDMT). In September 2022, the company produced its national report showing renewals scheme delivery data across all regions. These deliverables provide us with greater confidence that the company is adopting a best practice approach to managing the lifecycle of its assets.

However, it should be noted that in the reporting year, we only received three quarterly reports. This is not sufficient to establish a robust baseline performance level because it does not capture delivery seasonality. To ensure that we reach that position as soon as possible, we will continue to work with the company to support the further development and maturity of its reporting. A baseline of at least one full year of reporting will provide us with a better understanding of renewals scheme delivery and continued, regular reporting will strengthen our ability to hold the company to account for the delivery of its renewals programme.

The need for renewals reporting to demonstrate best practice whole-life asset management is shown in the context of pavement renewals. In January 2023, National Highways forecasted that it was going to miss its pavement condition key performance indicator (KPI) target. The company used updated asset condition information to adjust its renewal programme and has recovered its position and met its target. We asked the company to demonstrate to us, using the renewals reporting tool, how it responded to the risk of missing the KPI target. The company provided output data from CDMT showing changes made to the pavement renewals programme and, its approach to data processing. By using data from the renewals reporting tool, the company was able to demonstrate its maturing approach to asset management.

National Highways has stated that the reduction in the pavement condition forecast was predominantly due to the extreme hot weather experienced in July 2022. Therefore, the company needs to demonstrate in its asset management reporting evidence that it is delivering network resilience, including to account for the ongoing impacts of climate change.

Going forward, we will continue to hold National Highways to account to build on what it has done to improve the intelligence available to support asset management decisions. Furthermore, the company should demonstrate its ability to forecast, mitigate risks and plan for changing asset need.

Key message 4 – Environment

In the reporting year, ORR successfully challenged National Highways on its ability to deliver no net loss in biodiversity and reduce its corporate carbon emissions by 2025. The company produced robust plans following the concerns we raised. We will continue to hold National Highways to account on its commitments and scrutinise and evaluate the company's delivery of biodiversity improvements and corporate carbon reductions set out in these plans, to achieve its end of road period targets.

National Highways has a key performance indicator (KPI) target for the second road period (RP2) to deliver no net loss of biodiversity by 2025. In our last annual assessment, we reported that the company was forecasting a biodiversity net loss by 2025. Following ORR's challenge and increased engagement, the company produced a robust biodiversity delivery plan in September 2022. It is now forecasting that it will achieve no net loss of biodiversity by the end of RP2.

In March 2023, government agreed to adjust National Highways' RP2 corporate carbon reduction KPI target. This is because grid electricity production is more carbon intensive than was forecasted in 2020 when the target was set. The company is still committed to a 22% reduction in its electricity usage by the end of the road period as originally planned.

National Highways has plans in place to meet its second road investment strategy performance commitments on air quality and noise. We continue to scrutinise the company's environmental plans to satisfy ourselves that they are robust, deliverable and will meet its performance commitments.

Annex B: Performance specification overview

Our assessment of National Highways delivery against each KPI is summarised below:

Outcome	KPI & target	2022-23 performance
Improving safety for all	*Killed or seriously injured* 50% reduction by end of 2025 compared to 2005-2009 baseline	1,857 people killed or seriously injured in 2021, a 42% reduction on the baseline. Based on this trajectory, National Highways is **on track** to meet its target. DfT will publish 2022 data in autumn 2023.
Fast and reliable journeys	*Average delay* Ambition: No worse than 9.5 seconds (February 2020 baseline, to remove effects of COVID-19 pandemic)	National Highways is **at the ambition level**. Average delay was 9.5 seconds per vehicle mile. This KPI is an ambition as factors beyond National Highways' control affect traffic levels and delay.
	Network availability Not to exceed 47 million weighted lane metre days in 2022-23	National Highways **met its target**. Network availability was 42.3 million weighted lane metre days, a metric based on the length and impact of roadworks.
	Incident clearance rate 86% of motorway incidents impacting on traffic flow cleared within one hour	National Highways **met its target**. 87.2% of motorway incidents were cleared within an hour.
A well-maintained and resilient network	*Pavement condition* 96.2% of road surface does not require further investigation	National Highways **met its target**. 96.2% of road surface does not require further investigation.
Delivering better environmental outcomes	*Noise* 7,500 households mitigated in noise important areas by the end of RP2	National Highways **mitigated 4,206 households** (56% of its RP2 target) after three years. The company must deliver the plans it has in place to achieve its target by the end of RP2.
	Biodiversity No net loss of biodiversity by the end of RP2	National Highways is **on track to meet its target**. The company is forecasting a net gain by the end of RP2.
	Air quality Bring links (sections of SRN between junctions) into compliance in the shortest time possible	43 links exceed legal levels for nitrogen dioxide. DfT accepted 15 links have no additional mitigation available. 12 links are forecast to become compliant this year. Updated data is expected in December 2023.
	Corporate carbon 67% reduction in corporate CO_2 by 2025 compared to 2017-18	National Highways **reduced its carbon emissions by 50%** compared to the baseline. The company must deliver the plans it has in place to achieve its target by the end of RP2**.**
Meeting the needs of all road users	*Road user satisfaction* 73% of users satisfied with their SRN journey	A new target of 73% has been agreed and is in place from April 2023.
	Roadworks information 90% of overnight road closures correctly notified 7 days in advance	National Highways **accurately notified 70% of overnight road closures 7 days in advance**. The company must improve performance by 20 percentage points by the end of RP2 to meet its target.

Outcome	KPI & target	2022-23 performance
Achieving efficient delivery	*Total efficiency* £2.11bn of capital and ops efficiency by the end of RP2	National Highways is **on track** to meet its target. However, the forecast position is uncertain. The company has realised a total of £848m of efficiency savings, ahead of its internal milestone.