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Chief Executive



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Dear Emma

Our initial assessment of Highways England's performance in Road Period 1

I am writing to inform you about our initial assessment of Highways England's performance in Road Period 1 (RP1), covering the period up to the end of 31 March 2020.

We are due to publish our full assessment of the company's performance in July 2020. In previous years we have written to DfT with an early version of our assessment. This is timed to provide evidence to support discussions at Highways England's Remuneration Committee meeting, which is due to take place on 26 June this year.

Our assessment is summarised below, with further details in a supporting annex. It is based on our analysis of draft year-end information provided to us by Highways England, and earlier work undertaken throughout the road period.

In its first five years, Highways England has demonstrated a strong commitment to improving safety on the strategic road network and it better met the needs of road users. It is keeping the network in good condition, and has largely met its capital delivery commitments. And Highways England has achieved its target to deliver over £1bn of efficiencies in the first road period. This overall assessment is supported by three key messages, which are set out below.

1. In the first road period, Highways England has demonstrated a strong commitment to improving safety on the strategic road network, but must continue to work hard to meet its challenging target. In response to ORR's probing, the company has taken action to improve road user satisfaction and shown an increased focus on meeting the needs of those users. It has met most of its performance targets.

In RP1, Highways England has demonstrated a strong commitment to improving safety on the strategic road network. The company has delivered an extensive programme of actions aimed at improving safety. In this area, the strategic road network in England compares well to other road networks, both nationally and internationally.

However, further improvements are required if Highways England is to meet its safety target. The company's performance against its RP1 safety target will not be known until summer 2021, when the Department for Transport publishes road casualty statistics for 2020. In 2018, a total of 2,152 people were killed or seriously injured on the strategic road network. This represents a 30% reduction from the baseline period (2005-09); if this rate of improvement were to be sustained by Highways England it would not meet its target of a 40% reduction by the end of 2020, therefore further work is required to achieve this. Provisional data for the first six months of the year indicates that further reductions may have been achieved in 2019 but we must wait for the publication of the data by DfT before drawing conclusions.

Highways England has met its targets for smooth flow of traffic – keeping 98.2% of the network open to traffic, against a target of 97%, and clearing 89.1% of incidents within an hour, against a target of 85%. However, congestion increased slightly in RP1 – from 9.0 seconds delay per vehicle mile at the start of the road period to 9.3 seconds per vehicle mile in 2019-20 – as traffic levels and the amount of improvement work being undertaken on the network increased.

During RP1, ORR challenged Highways England to improve road user satisfaction, following a decline in its customer satisfaction score. The company subsequently developed and delivered a series of annual customer service plans which demonstrated an increased focus on meeting the needs of road users. Overall satisfaction subsequently increased, but ended RP1 at 89.2% – below the company's target of 90%.

Highways England met its target to mitigate at least 1,150 noise important areas in RP1 – it mitigated 1,174 by the end of the road period. It has also delivered the actions set out in the Biodiversity Action Plan it published at the start of RP1. Against its commitment to support vulnerable users, Highways England has delivered 211 new and 227 upgraded crossings in RP1.

2. Highways England has successfully achieved 95% of its commitments for delivery of major improvement schemes in Road Period 1. The actual number of commitments delivered is lower than originally set out in 2015, but is in line with the revised plan it agreed with Government. Addressing concerns raised by ORR, the revised plan also reduces disruption to road users.

The accuracy of Highways England's planning of renewals delivery has improved through the Road Period, reflecting an increased maturity in asset management capability. Highways England has largely exceeded its planned delivery of renewals across Road Period 1.

Highways England's delivery of its investment plan matured over RP1. The company has continued to identify the need for changes to its capital improvement delivery plan. Originally 112 schemes were planned to start work by the end of the first road period, which was revised to 73 schemes. It has substantially agreed these changes with the Department for Transport.

The company has predominantly delivered its major improvement schemes to the latest agreed plan. Of the 73 RIS1 schemes, Highways England started work on 67,

provided funds on two schemes for a third party to start work, and missed its commitment on four schemes. There are two additional schemes, which have been deferred to RP2, that have their commitment status under review. It successfully opened for traffic 36 schemes and missed its commitment on one scheme.

Highways England's planning of asset renewals has improved through RP1. Whilst it delivered more renewals than planned across the majority of its asset types, delivery was much closer to the plan in the last two years of the road period. This reflects the company's maturing approach to asset management and gives us more confidence that it is managing a safe and serviceable network.

Highways England met its target for keeping the network in good condition. At the end of RP1 pavement condition was 95.5%, above the target of 95%. This is significant progress from when the target was missed in the first two years of the road period. Following our investigation, Highways England put plans in place to improve its processes for reporting and managing the condition of the road that has led to improved performance in this area.

The company spent 6% less on renewals than it was funded for across RP1 (£3.494bn spent, against funding of £3.724bn).

Whilst Highways England improved its reporting of renewals delivery outputs in the latter half of the road period, the nature of reporting does not provide complete assurance that the right assets have been treated, at the right time. This is particularly the case for assets where the condition metrics provide a weak line of sight between renewals plans and delivery of work.

Highways England's increased maturity in asset management is underpinned by processes and procedures set out in new strategic documentation. This includes its published asset management policy and strategy. The company's knowledge of its asset base has been strengthened by improvements in data collection and management through its operational transition to new ways of working, known within the company as Asset Delivery. This has included addressing inspection backlogs across key assets such as structures, prompted by our enhanced monitoring, and migration of historic data to a new central management system.

3. Highways England has met its KPI target to deliver more efficiently in Road Period 1. The company has responded positively to ORR's constant challenge to improve the evidence used to support reported efficiency.

In RP1, Highways England was set a key performance indicator to deliver £1.2bn of efficiencies, and was required to provide evidence of its progress against this target. This initially proved challenging to the new company in part because the rapid development of the RIS led to several changes to scheme scope and funding assumptions during RP1. However, Highways England has developed its capability in this area, and by the end of RP1 had provided a stronger evidence base to support its increased efficiency.

Highways England has reported £1.4bn of efficiency in RP1 against the KPI to achieve £1.2bn capital efficiency savings. This is supported by good evidence of the actions taken to manage expenditure and deliver within its funding.

Throughout the road period we have constantly challenged the quality of other types of evidence of efficiency – specifically from unit cost movement and delivery of the RIS. This remains less robust but has improved and we now agree that it provides reasonably sufficient evidence of the KPI having been achieved.

To demonstrate achievement of the KPI Highways England is required to provide evidence in the three different ways:

1. Primary evidence from efficiency case-studies. The company provided 200 case studies of management action taken to deliver more efficiently during the road period. The majority of the efficiency has come from renewals (54%) and major enhancement schemes (43%).

The case studies have been assured internally by Highways England and reviewed by the ORR. We found this evidence to be of good quality.

2. Unit costs. Highways England has developed unit cost models to verify the value reported through case studies. This proved challenging and the company's own assurance found sources of uncertainty with some models. However, after adjustments for some efficiencies, which are excluded from the models, they provide a reasonable quality of evidence above the KPI target.

3. Delivery of the RIS. Highways England has also provided supporting evidence by demonstrating that it has delivered most of the RIS1 outputs for its post-efficient funding. This was not straightforward as the cost of schemes that were deferred or cancelled was more than expected within RIS1, and the company has benefited from lower than expected inflation. However, it delivered greater scope on some schemes and did not receive sufficient funding for some business costs. This evidence was developed by Highways England late in the road period in response to our challenge and we have disagreed in some areas. Ultimately our review found there was reasonable evidence of efficiency exceeding the KPI target.

Look ahead to Road Period 2

Road Period 2 started in April 2020, and ORR will now monitor Highways England's performance against the new set of targets set out for RIS2. It is a more mature organisation than at the start of RP1, so more will be expected of it. However, we are also mindful that the new road period has begun in extraordinary circumstances, due to the coronavirus (COVID-19) pandemic.

Our approach to monitoring Highways England during the pandemic is set out in more detail in the letter we sent to the company, and shared with you, on 1 June. In summary, our approach will be pragmatic and flexible, and take account of the changing circumstances, while still holding Highways England to account for delivering efficiently and effectively.

We are pleased to note that Highways England has acted with speed and decisiveness in response to the coronavirus pandemic so far. The company has safely maintained critical services, and minimised impact on staff, customers and its supply chain.



I am copying this letter to Roger Lowe and Jim O'Sullivan at Highways England. We will publish this letter alongside our annual assessment.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Larkinson', with a long, sweeping horizontal stroke extending to the right.

John Larkinson

Chief Executive

Annex: Performance specification delivery on a page

| Outcome | KPI and target | Performance in RP1* | Rating |
|---|--|--|------------------------|
| Making the network safer | Killed and seriously injured ● Target: 40% reduction by end of 2020 | Data for the end of RP1 will not be published until summer 2021. The latest figures show 2,152 KSIs in 2018 – a 30% reduction from the baseline. | Data not yet available |
| Improving user satisfaction | Road user satisfaction ● Target: 90% by March 2017 | 89.2% satisfaction at the end of RP1 – below the target of 90%. | Target missed |
| Supporting the smooth flow of traffic | Network availability ● Target: 97% lane availability in any one rolling year | 98.2% availability – above the RP1 target of 97%. | Target met |
| | Incident clearance ● Target: 85% of motorway incidents cleared within one hour | 89.1% cleared within one hour – above the RP1 target of 85%. | Target met |
| Encouraging economic growth | Average delay (seconds per vehicle mile) Target: No target set | 9.3 seconds delay per vehicle mile. An increase of 0.4 seconds from 2015-16. | No target set |
| Delivering better environmental outcomes | Noise important areas mitigated ● Target: Mitigate at least 1,150 noise important areas by 2020 | 1,174 noise important areas mitigated in RP1 – the target of 1,150 was met. | Target met |
| | Improved biodiversity ● Target: Publish biodiversity action plan | Highways England has delivered the actions set out the biodiversity action plan it published in 2015. | Target met |
| Helping cyclists, walkers and other vulnerable users | Number of new and upgraded crossings Target: No target set | 211 new and 227 upgraded crossings completed by Highways England in RP1. | No target set |
| Achieving real efficiency | Capital expenditure savings ● Target: Savings of at least £1.212 billion on capital expenditure by 2019-20 | £1.4bn of capital efficiencies reported in RP1 – exceeding the target of £1.212bn. | Target met |
| | Progress of work, relative to delivery plan Target: No target set | Highways England achieved 95% of its capital delivery milestones in RP1. | Target met |
| Keeping the network in good condition | Pavement condition ● Target: 95% of pavement requiring no further investigation for possible maintenance | 95.5% requires no further investigation for maintenance – above the target of 95% for RP1. | Target met |

*Performance data is provisional. Final figures will be presented in our annual assessment of Highways England to be published in July 2020.