



OFFICE OF RAIL AND ROAD

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Dear Tricia

Our initial assessment of Highways England's performance in 2017-18

I am writing to inform you about our initial assessment of Highways England's performance in the year to 31 March 2018, the third year of road period 1.

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 year. We will publish our full annual assessment of the company's performance in July.

Overall, Highways England continues to operate a road network which is safe and serviceable – largely meeting its performance targets. The company is improving its management of its capital portfolio. Its forecast costs for the road period remain above funding, partly reflecting delivery of additional scope and planned over-programming. It must continue to take action to manage this position and reconcile it with reported efficiencies.

This is supported by four key messages, which are set out below.

1. Highways England's performance in operating the network has remained steady in 2017-18.

In the context of increased traffic it has kept the network flowing. Road user safety remains good compared to other road networks, although the challenging target for 2020 is at risk. Highways England is becoming more customer-focused and has plans for further improvement. Road user satisfaction remains high, but is below target.

Highways England has demonstrated a strong focus on safety, and in this area the strategic road network in England compares well to other road networks. The company is not yet delivering the reduction in the number of killed or seriously injured required to meet its challenging target of 40% improvement by 2020.

Traffic on the network has grown over the last year. In spite of this, average congestion is broadly stable in this road period and Highways England remains above its targets for smooth flow of traffic – keeping 98.3% of the network open to traffic and clearing 87.9% of incidents within an hour.

During 2017-18 Highways England has demonstrated its improved customer focus through reviewing road users' experience of unplanned disruption caused by major incidents. It has identified lessons learnt and developed action plans to improve future performance. However, Highways England's user satisfaction is 88.7%, slightly below its target of 90%. It is developing an improvement plan for 2018-19 which must reflect road users' priorities. It is also setting out its customer service strategy, recognising the longer term ambition of improving customer focus and satisfaction.

The company has made progress in delivering its environmental targets on biodiversity and noise, and has helped vulnerable users by completing 100 new and upgraded crossings – considerably higher than the number completed last year.

2. Highways England is delivering more improvements on its roads but it must manage costs.

The company has improved its planning and management of major schemes, and is delivering the majority of these on time. It has demonstrated improved management of its capital portfolio. Its forecast costs for the road period have reduced, but remain above its funding, partly reflecting delivery of additional scope and planned over-programming. It must continue to take action to manage this position. Investment through its ring-fenced funds has increased, but is slower than originally planned.

Highways England continues to deliver most of its major schemes to schedule and has improved its scheduling of major schemes for the remainder of the road period. It started work on all seven schemes in its 2017-18 delivery plan, and an additional scheme brought forward from 2019-20. It also opened to traffic eight of the nine schemes which were planned in 2017-18.

The company has strengthened its capital portfolio management capability and, as a result, now has better information about scheme timings, costs and risks. This should support improved planning and delivery in the long-term.

The majority of major schemes completed to date have cost more than the original funding assumptions. Highways England now expects to start 85 schemes in the first road period, down from 112 originally planned. The company's forecast total costs for its RIS1 major schemes is now £2.9bn higher in road period 1 and road period 2 than originally assumed. This partly reflects immature scheme estimates when RIS1 funding was set.

Highways England forecasts capital costs that are £438m higher than its funding in the road period. It is taking action to manage costs, but there is risk that some work will need to be deferred to the next road period and / or additional funding used in road period 1 (for example through the agreed capital flex).

Highways England has made good progress to date on its flagship schemes. The A14 Cambridge to Huntingdon scheme is in line with the company's plans to meet its completion date, and it has made progress with planning for the A303 Stonehenge tunnel and Lower Thames Crossing.

Highways England's delivery through its ring-fenced funds is slower than planned, although the pace of delivery has picked up in 2017-18. There is particular risk to delivering the intended investment through the air quality fund. We propose that it should now review options for addressing this with government.

3. Highways England is improving the condition of the strategic road network.

Network condition has improved during the year, and is now on target. The company has set out long-term plans for improving the identification, planning and delivery of asset maintenance and renewal works.

Highways England has responded positively to the concerns we raised previously and has recognised that it should take a more structured approach to managing its assets – including assuring that it is identifying and delivering the right work. It has set out plans for improvement which will support better maintenance and renewal of the network in this road period, and beyond.

Highways England has improved the condition of its road network during the year and it is meeting its target to have at least 95% of the network in good condition. The timing of the surveys used to collect road condition data mean that these figures do not reflect the impact of the recent winter; this will be reflected in 2018-19 data. We are working with the company to understand what effect this has had on road surfaces, and how it is addressing any resultant impact on network condition.

The company has spent 24% more on renewals in 2017-18 than in 2016-17 and delivered more road surface renewals. However, user satisfaction with upkeep has reduced by one percentage point this year, to 89%.

In 2017-18, Highways England spread its expenditure on maintenance and renewals slightly more evenly throughout the year than it has done in previous years.

4. Highways England is delivering efficiencies but more evidence is required that its road period target is on track.

It has reported £486m of cost savings in the road period to date (40% of its target), £226m of which are in 2017-18. This is supported by clear evidence of specific improvements made. The company needs to continue to develop its evidence that reported savings are supported by its capital portfolio delivery and its unit costs.

Highways England has presented strong evidence of the actions it has taken to deliver more efficiently and the savings these have realised. It has started to develop improved unit cost information to provide context for its reported efficiency – this needs further work.¹

Highways England's current capital portfolio expenditure forecast is £438m higher than its funding, partly reflecting delivery of additional work and planned over-programming. This is after agreed changes to the RIS, including from the optimisation process – which, taken together, have removed scope from road period 1. The company has identified plans to reduce the gap between its expenditure forecast and funding to £274m by the end of the road period. Any remaining gap will need to be managed through use of additional funds in road period 1 or deferral of work into road period 2.

¹ Highways England reports that its smart motorway unit costs (calculated using an agreed approach) have reduced, supporting a claim for efficiency. It is developing a new approach to reporting renewals unit costs and we are working with the company to understand how robust this is. Highways England does not currently have unit costs for other areas of capital expenditure.

Other areas of performance

In 2017-18, we have seen Highways England develop robust processes to monitor and assure itself of compliance with the licence and the RIS. It has also improved the processes for monitoring and assuring its performance. It has identified, and corrected, issues with the performance data it reports to us.

Highways England has made progress in developing plans for RIS2. Its engagement with stakeholders has improved from RIS1, but some stakeholders are still expressing concerns over transparency. Highways England should continue to look for opportunities to provide further transparency on its plans and delivery.

Continuing to develop RIS2 plans is a key priority for Highways England in 2018-19 – this includes delivering a robust Strategic Business Plan, and presenting efficiency evidence. We are generally getting good engagement from Highways England on issues of RIS1 performance, and now want to replicate this on RIS2 issues.

Look ahead to 2018-19

We have discussed our business plan for 2018-19 with DfT and Highways England. Priority areas for ORR will include providing evidence and advice to inform RIS2, a continued focus on monitoring RIS1 as Highways England moves into the later stages of delivery, and further developing our benchmarking work. We will also be aiming to improve coordination of our detailed plans with DfT, Highways England and Transport Focus to ensure a shared understanding amongst all partners.

Concluding remarks

In conclusion, Highways England has demonstrated in 2017-18 that it is continuing to build its capability in managing its network. It has met the majority of its targets during the year and has made progress in developing plans for the next road period. However, the performance requirements are more challenging in future years, and there are risks to delivery at the end of the road period. In particular, Highways England needs to manage risks to its capital delivery, including continuing to take action to reduce forecast costs.

We are engaging Highways England well on issues of performance in RIS1, and we are working with the company to ensure this is matched as we work together on RIS2 development.

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

Yours sincerely



Joanna Whittington

Chief Executive

Annex: Performance Specification delivery on a page

Outcome	KPI and target	Performance in 2017-18*	RAG 2017-18	RAG RP1
Making the network safer	Killed and seriously injured ● Target: 40% reduction by end of 2020	Data for 2017 not yet published.	Amber	Amber
Improving user satisfaction	Road user satisfaction ● Target: 90% by March 2017	88.7% satisfaction	Amber	Amber
Supporting the smooth flow of traffic	Network availability ● Target: 97% lane availability in any one rolling year	98.3% availability	Green	Green
	Incident clearance ● Target: 85% of motorway incidents cleared within one hour	87.9% cleared within one hour	Green	Green
Encouraging economic growth	Average delay (seconds per vehicle mile) Target: No target set	9.2s delay, which is slightly higher than 2016-17	Amber	Amber
Delivering better environmental outcomes	Noise important areas mitigated ● Target: Mitigate at least 1,150 noise important areas by 2020	443 mitigated in 2017-18 (bringing RP1 total to 645).	Green	Amber
	Improved biodiversity ● Target: Publish biodiversity action plan	Highways England is delivering the commitments set out in the action plan.	Green	Green
Helping cyclists, walkers and other vulnerable users	Number of new and upgraded crossings Target: No target set	28 new and 72 upgraded crossings delivered in 2017-18.	Amber	Amber
Achieving real efficiency	Capital expenditure savings ● Target: Total savings of at least £1.212 billion on capital expenditure by 2019-20	£226m of efficiencies in 2017-18 (£486m cumulative) Subject to review.	Amber	Amber
	Progress of work, relative to delivery plan Target: No target set	Work started on 8 schemes (target of 7). 8 schemes open to traffic (target of 9).	Green	Amber
Keeping the network in good condition	Pavement condition ● Target: 95% of pavement requiring no further investigation for possible maintenance	95.2% requires no further investigation	Green	Amber

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