

John Larkinson
Chief Executive

Tricia Hayes
Director General Roads, Places and Environment Group
Department for Transport
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19 June 2019

Dear Tricia

Our initial assessment of Highways England's performance in 2018-19

I am writing to inform you about our initial assessment of Highways England's performance in the year to 31 March 2019, the fourth 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 is taking the right actions on its network to meet the needs of road users. Despite this, delays are increasing and road user satisfaction is below target. The company is meeting its target to keep the network in good condition, and delivering major improvement schemes to a revised plan that it has agreed with the Department for Transport through change control. It is delivering more efficiently, but better evidence is needed to support reported levels.

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

1. Highways England is taking the right actions on its network to meet the needs of road users. Despite this, delays are increasing and road user satisfaction is below target.

Highways England continues to demonstrate a strong focus on safety. In 2017¹, there were 2,012 people killed or seriously injured on the network. This is fewer than in any previous year, and below the straight line trajectory required to meet its key performance indicator. However, further reductions are required if the company is to deliver its challenging target of a 40% reduction by 2020.

Highways England is delivering its targets for smooth flow of traffic – keeping 98.3% of the network open to traffic, against a target of 95%, and clearing 88% of incidents

¹ At the time of writing, data for 2018 are not yet available.

within an hour, against a target of 85%. However, delays have increased in the last year, from 9.2 to 9.4 seconds per vehicle mile, reflecting traffic growth and increasing levels of roadworks as Highways England delivers more network improvements.

In 2018-19, Highways England set out a customer service improvement plan, aimed at raising levels of user satisfaction. It has delivered the actions set out in the plan, but satisfaction remains below the 90% target, at 88.4%.

The company is making good progress against its environmental targets. In 2018-19 it mitigated 300 noise important areas, and is delivering the commitments set out in the Biodiversity Action Plan. Against its commitment to support vulnerable users Highways England has delivered 83 new and upgraded crossings, although the company should improve its processes for gathering this information.

2. Highways England is meeting its target to keep the network in good condition, and delivering major improvement schemes to a revised plan that it has agreed with the Department for Transport.

Highways England is taking a more structured approach to managing its assets and remains above target for maintaining the road surface – its key performance indicator shows that 95.5% of the network is in good condition, above its target of 95%.

The company has improved how it manages maintenance and renewals, and is delivering volumes that more closely align to its plans. It has also acted on an improvement plan we required that addressed a significant number of overdue inspections of its structures (and other assets), and improved the accuracy of its information relating to inspection records.

Highways England started work on four major schemes in 2018-19. It originally had a commitment to start work on six, but this was revised to four through the Department for Transport's formal change control process. The company completed six of the seven schemes that were planned to open in 2018-19; the delayed scheme is now expected to open in 2019-20.

Of 112 major schemes originally planned to start works by the end of the first road period, 100 remain in the programme. Highways England now expects to start 70² by March 2020, with 30 expected to start in the second road period. It has agreed its revised programme with the Department for Transport. The agreed changes seek to reduce road user disruption. They make sure that only those schemes that deliver value for money and have stakeholder support are taken forwards. The reduced programme partly reflects that the funding provided in RIS1 was not enough to deliver all of the specified schemes.

There are still risks to delivery of major schemes in the remainder of the road period. 25 schemes are scheduled to start in 2019-20 and these need careful management to avoid further deferrals.

Highways England is forecasting total costs in the road period that are £205m higher than its RIS1 funding. This has reduced significantly over the road period, and from last year, when the difference was £438m.

Highways England delivered more through ring-fenced funds in 2018-19 than it has in previous years. To date 54% of the total funds available in RIS1 have been spent. There is a particular risk that Highways England will not fully use the air quality fund.

² Subject to change control agreement

3. Highways England is delivering more efficiently, but better evidence is needed to support reported levels.

Highways England is reporting £848m of efficiency in the road period towards its RIS1 target of £1.2bn by March 2020. The company has provided good evidence of the actions it is taking to deliver more efficiently. But broader measures capturing costs of outcomes do not fully support this level.

Highways England has been working to develop efficiency models based on unit cost information. So far, it has used these to evidence efficiencies for its smart motorway projects and renewals work – but not for other major improvement projects. More work is needed to assure the renewals model's outputs. It is vital that Highways England progresses work on capturing and reporting productivity improvements to support efficiency reporting in the future. This will also be required to establish a clear baseline for the second road period.

Highways England can support its efficiency claims by demonstrating that it has delivered its outputs and schemes within its funding. However, providing evidence of this is not straight-forward. The funding provided in RIS1 was not enough to deliver all of the specified schemes, and was set at a time when there was not a full understanding of scheme scope. While fewer schemes are being delivered than originally expected in RIS1, the costs associated with this deferred work are comparable to the under-funding. The company has also benefited from lower than expected inflation. Our analysis of this area of evidence suggests that net levels of efficiency are lower than those reported.

Weighing up all of the above, we consider that Highways England has more to do to support its reported £848m of efficiency. We expect it to produce better supporting evidence for the end of the road period.

Learning from this, it is essential that a better, fully-funded baseline plan is developed for RIS2, built on a clear understanding of scheme costs, timings and scope.

Look ahead to 2019-20

2019-20 is an important year for Highways England, as it develops its plans for RIS2 whilst delivering its requirements for the final year of RIS1.

In the past year Highways England has produced a draft Strategic Business Plan for RIS2 which reflects the greater capability that the company has developed in the first four years of RIS1. Ensuring that it builds on this to put robust plans in place, and develop its baseline position for RIS2, is a clear priority for Highways England in 2019-20. ORR will continue to review the company's plans as we assess its readiness for delivering RIS2.

Highways England must also continue to deliver its remaining commitments in the final year of RIS1. In particular, the company has committed to begin 25 major schemes in 2019-20, of which 21 are planned to start in Q4. It must also deliver more through its ring-fenced funds than it has done before, and provide better evidence for its claimed efficiencies. We will continue to work with the company to monitor its performance, and hold it to account for delivering its commitments in the final year of RIS1.

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

A handwritten signature in black ink, appearing to read 'John Larkinson', written in a cursive style.

John Larkinson

Chief Executive

Annex: Performance Specification delivery on a page

Outcome	KPI and target	Performance in 2018-19*	RAG 2018-19	RAG RP1
Making the network safer	Killed and seriously injured ● Target: 40% reduction by end of 2020	10% reduction in killed or seriously injured in 2017. Data for 2018 not yet published.	Amber	Amber
Improving user satisfaction	Road user satisfaction ● Target: 90% by March 2017	88.4% satisfaction. Remains below 90% target.	Amber	Amber
Supporting the smooth flow of traffic	Network availability ● Target: 97% lane availability in any one rolling year	98.3% availability. Remains above 97% target.	Green	Green
	Incident clearance ● Target: 85% of motorway incidents cleared within one hour	88% cleared within one hour. Remains above 85% target.	Green	Green
Encouraging economic growth	Average delay (seconds per vehicle mile) Target: No target set	9.4 seconds delay, an increase of 0.2 seconds from 2017-18.	Amber	Amber
Delivering better environmental outcomes	Noise important areas mitigated ● Target: Mitigate at least 1,150 noise important areas by 2020	300 mitigated in 2018-19 (bringing RP1 total to 951).	Green	Green
	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	29 new and 54 upgraded crossings delivered in 2018-19.	Amber	Amber
Achieving real efficiency	Capital expenditure savings ● Target: Total savings of at least £1.212 billion on capital expenditure by 2019-20	£362m of efficiencies reported in 2018-19 (£848m cumulative). Better quality evidence needed.	Amber	Amber
	Progress of work, relative to delivery plan Target: No target set	Work started on 4 schemes – in line with revised plans. 6 schemes open to traffic (target of 7).	Amber	Amber
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	Green	Green

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