



OFFICE OF RAIL AND ROAD

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Dear Tricia

**Our initial assessment of Highways England's performance in 2016-17**

I am writing to inform you about our initial assessment of Highways England's performance in the year to 31 March 2017, the second year of Road Period 1 ('RP1').

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 in April and May, and earlier work undertaken throughout the year. We will publish our full annual assessment of the company's performance in July.

Our initial assessment of Highways England's performance in 2016-17 is summarised in the following key messages:

**Highways England's performance remains good across a range of measures**

*Casualty rates on its network are low compared to other road networks and it is keeping traffic flowing while delivering major improvements. It is starting to be more efficient in the way it delivers.*

Safety remains a priority for Highways England. It has published a five-year health and safety plan. We are reviewing delivery of this. Safety data becomes available in late June 2017 and we will include further commentary in our annual assessment. Provisional data suggests that the number of people killed and seriously injured on the network may have increased by approximately 5-10%. However, we understand that a change in the way the data are recorded is likely to have caused an increase in the reported number of serious injuries. DfT will publish more detailed analysis on this change later in 2017. We will work closely with the department and Highways England to understand how this may affect Highways England's ability to meet its RIS1 safety target.

Highways England has performed well in keeping traffic flowing with 98.4% of its network open to traffic against a target of 97%, similar to performance last year. It

has cleared 85.9% of incidents within an hour, which is slightly lower than in recent years, but still above the target of 85%.

Highways England's overall capital expenditure was within 2% of its budget for the year, finishing the year £37m underspent against the budget of £2.1bn. The company has reported around £170m of cumulative efficiencies to date, £30m ahead of the company's internal target. The company has developed its plans for how it will deliver the £1.2bn RIS1 target and the evidence supporting claimed efficiency, though developing the evidence base remains work in progress.

Highways England started construction on eight major road-improvement schemes, against a plan to start on four. Seven major schemes opened for traffic, against a plan to open eight. We have conducted an in-depth review of Highways England's management of a sample of its major schemes. We have agreed a number of specific areas for improvement with Highways England. It has committed to develop a plan to address these and we will monitor its delivery.

### **Some areas of the performance specification need Highways England's continued focus to deliver targets**

*Network condition and road user satisfaction are below target. The company has developed plans to address network condition and we will monitor its delivery. It now needs to set out its plans to improve road user satisfaction. The company has more work to do on reducing the impact of the strategic road network on neighbouring communities.*

Network condition at 31 March was at 94.3% against a target of 95%. Although this measure has increased from 92.3% at the start of 2016-17, this means that company has missed its RIS target in both 2015-16 and 2016-17. We investigated this issue and communicated our findings to Highways England in a letter on 13 April 2017. As part of that investigation, we found that it was managing any safety impact and was taking appropriate action, through a remedial plan, to improve network condition. Highways England did not fully deliver its remedial plan in 2016-17. It has now committed to update to its plan, setting out the additional renewals it will undertake in 2017-18 to deliver the target. We will report on this in our annual assessment. We note that performance against the network condition KPI was removed from the company's management incentive plan in 2016-17, which may affect Highways England's incentives to manage this KPI.

Highways England has missed its RIS target for road user satisfaction in 2016-17, achieving 89.1% against the target of 90%. The company undertook a wide range of actions to improve customer service in 2016-17, but some of these were unlikely to contribute directly to an increase in the user satisfaction KPI. Highways England is working to improve its understanding of how its actions can affect the KPI. It now needs to produce a recovery plan setting out what actions it is taking, by when, to bring performance back to the target level of 90%.

At the end of 2016-17, Highways England had mitigated 121 noise important areas towards its target of 1,150 by 2020. Over the next year, it intends to produce updated plans for how it will meet its target. It also has more work to do to set out clearly how many user crossings it will deliver and when.

### **Planning of major improvements is getting better**

*Planning of major improvements has improved and Highways England is in the process of agreeing a revised baseline plan with government.*

Highways England has carried out a review of its plans for delivering capital investment during the remainder of the road period. The company has developed plans that aim to reduce disruption for road users and deliver better value for money. Confidence in the revised baseline plan should support the company's suppliers to plan their activities more effectively. As a result, Highways England intends to deliver some major improvement schemes currently planned for the first road period in the next period, while certain other schemes have been brought forward within this road period. We are reviewing the revised baseline.

Highways England has now to agree its revised plans with government through the formal change control process. Its engagement with the change control process has improved during the year but the rigour of its evidence on the need for, and impact of, change needs continued focus. Highways England needs to ensure it can deliver this portfolio of enhancements whilst limiting the impact on the performance targets. We expect the revised plans to be made publicly available once they have been agreed with government.

### **Highways England has more to do to improve its asset management**

*It has further work to do to demonstrate that it is efficiently planning and delivering its maintenance and renewals work to keep the network in good condition.*

Highways England is developing improved maintenance and renewals planning processes, which it will need to embed. It has reviewed its renewals reporting and identified the need to improve the assurance of its data. We completed an in-depth review into Highways England's asset management delivery for pavement and structures in March 2017. Highways England is now developing a plan to address issues and recommendations made in this review.

Highways England continues to have challenges in delivering a stable programme of renewals. There was again a large increase in renewals expenditure towards the end of the year – with 32% of the renewals expenditure incurred in the final two months. This was a significant departure from the company's budgeted expenditure profile. Highways England recognises that it can improve efficiency by around £30m in Road Period 1 by smoothing its monthly renewals profile.

### **Data quality and assurance of the monitoring reporting statements**

To make informed assessments about Highways England's performance we need to have confidence that the information contained within the company's annual monitoring reporting statements is accurate and reliable. We had concerns about the quality of some of the information within the 2015-16 statements, in particular, the pavement condition KPI and that the statements did not include sign-off by Highways England's Board.

Highways England has written to us, recognising shortcomings in its reporting of network condition and has developed improvement plans for its reporting and management of network condition. We have met twice with Highways England's Audit Committee Chair, David Hughes. Highways England has explained to us the improvements that it is making to assurance of the 2016-17 monitoring reporting statements. We welcome these improvements and will look to Highways England's Board to sign-off the monitoring reporting statements, or explain where and why it is unable to do so.

## **Our senior level relationship with Highways England**

We have had constructive engagement with Highways England's staff during the year. In particular, we have noted the positive and proactive contributions to our in-depth reviews of the management of major schemes and maintenance and renewals. We would like to develop our relationship with Highways England to realise fully the value of independent monitoring. There is scope for the boards of ORR and Highways England to engage more on key risks and issues so that there are no surprises.

Highways England has a licence requirement to cooperate with its stakeholders in an open and transparent way. We have seen some improvements in the company's engagement with stakeholders, however, there are opportunities for it to provide further transparency of its plans and delivery, for example, in relation to its environmental commitments.

## **Looking ahead to 2017-18**

Over the next year, Highways England will need to address the areas for improvement noted above to deliver its RIS1 requirements. We will work with Highways England to agree the evidence base that the company will need to develop to support the second Road Investment Strategy ('RIS2').

We have discussed our business plan for 2017-18 with DfT and Highways England. Priority areas for our monitoring will include delivery of the revised RIS1 capital programme, at risk performance areas and implementation of Highways England's Asset Delivery approach. We will also be looking for Highways England to improve the information that it provides to us for example, to support our RIS2 benchmarking work. We are confident that Highways England will constructively engage with us to deliver these.

## **Concluding remarks**

In conclusion, Highways England has met the majority of its targets in 2016-17 and our sense is that the monitoring processes that we have put in place are generally working. However, the performance requirements for 2017-18 and later years of RP1 are more challenging. We both have more work to do to develop the processes for delivering and monitoring these requirements.

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

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 2016-17	RAG 2016-17	RAG RP1
<b>Making the network safer</b>	<b>Killed and seriously injured</b> ● Target: 40% reduction by end of 2020	Final data due June 2017. Change to data collection likely to result in increased KSIs.	Amber	Amber
<b>Improving user satisfaction</b>	<b>Road user satisfaction</b> ● Target: 90% by March 2017	89.1% satisfaction	Amber	Amber
<b>Supporting the smooth flow of traffic</b>	<b>Network availability</b> ● Target: 97% lane availability in any one rolling year	98.4% availability	Green	Green
	<b>Incident clearance</b> ● Target: 85% of motorway incidents cleared within one hour	85.9% cleared within one hour	Green	Green
<b>Encouraging economic growth</b>	<b>Average delay (seconds per vehicle mile)</b> Target: No target set	9.0s delay, which is slightly higher than 2015-16	Amber	Amber
<b>Delivering better environmental outcomes</b>	<b>Noise important areas mitigated</b> ● Target: Mitigate at least 1,150 noise important areas by 2020	73 mitigated in 2016-17 (bringing RP1 total to 121). Uncertainties around future delivery.	Amber	Amber
	<b>Improved biodiversity</b> ● Target: Publish biodiversity action plan	Management plans produced for 15 SSSIs. Biodiversity metric proposed	Green	Green
<b>Helping cyclists, walkers and other vulnerable users</b>	<b>Number of new and upgraded crossings</b> Target: No target set	71 new and 16 upgraded crossings delivered in 2016-17. Lack of clear plans for the rest of the road period.	Amber	Amber
<b>Achieving real efficiency</b>	<b>Capital expenditure savings</b> ● Target: Total savings of at least £1.212 billion on capital expenditure by 2019-20	£137m of efficiencies in 2016-17 (£169m cumulative) Subject to review	Green	Amber
	<b>Progress of work, relative to delivery plan</b> Target: No target set	Work started on 8 schemes (target of 4). 7 schemes open to traffic (target of 8).	Green	Amber
<b>Keeping the network in good condition</b>	<b>Pavement condition</b> ● Target: 95% of pavement requiring no further investigation for possible maintenance	94.3% requires no further investigation	Amber	Amber