Annual Assessment of National Highways' performance - April 2022 to March 2023

Executive summary

Introduction

National Highways was set up as a government-owned company in 2015, tasked with managing the strategic road network (SRN) – the motorways and major A-roads in England. In its second road investment strategy (RIS2) the government specified a set of outcomes and investments that it requires National Highways to deliver over the second road period (RP2), from 1 April 2020 to 31 March 2025.

The Office of Rail and Road (ORR) holds National Highways to account for the delivery of the requirements set out in RIS2, its broader licence commitments and how it achieves its efficiency targets. This report sets out our assessment of National Highways' performance in the third year of RP2, between 1 April 2022 and 31 March 2023 (the reporting year).

The reporting year coincides with a period of significant financial uncertainty for National Highways caused by external pressures, such as high inflation. The uncertainty is also complicating decision making over enhancement schemes that the company is due to deliver towards the end of RP2. ORR continues to work closely with National Highways and government to understand the impact on and risks to delivery that are associated with this uncertainty.

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. However, over the reporting year traffic levels and delays increased. The company must continue to focus on delivering in this area.

National Highways met its target for delivering a well-maintained and resilient network. The company improved its performance in notifying users of road closures, but more work is required to achieve its challenging targets set for the end of the road period. We continue to hold the company to account to achieve this as we enter the final two years of RP2.

This report does not include a detailed assessment of National Highways' performance on safety, except where new data is available on workforce safety. In December 2022, we published our first annual assessment of safety performance on the strategic road network that includes commentary on the latest road casualty data. We will publish an updated safety report by December 2023 using the latest data due to be published by the Department for Transport in September 2023.

This will also include an update of our work relating to the Transport Select Committee's recommendations on the roll-out and safety of smart motorways. This is unaffected by the government's announcement in April 2023 to cancel all smart motorway enhancement schemes not yet in construction.

Our annual assessment is supported by four key messages.

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 (RP2) is uncertain. National Highways must demonstrate that it has a clear understanding of how to meet its key performance indicator target despite changes in outputs, cost and delivery risks and a challenging enhancements programme for the remainder of RP2.

1. National Highways reports that it met its March 2023 cumulative efficiency milestone, after adjusting for inflation above the funded level. During the reporting year we pressed the company to improve the quality of its efficiency evidence and worked with it to ensure that its inflation adjustment is robust. The company has made good progress in these areas and we found that its

evidence supports its reported position.

2. National Highways has also reported that it is on track to meet its efficiency key performance indicator (KPI) target at the end of RP2. We note that the position is challenging. In the next two years, the level of inflation that the company will face is uncertain, and to meet the target the company will need to deliver a challenging programme of works.

3. National Highways must ensure that it has a clear understanding of how inflation is impacting all areas of efficiency and how other external cost pressures (such as non-recoverable VAT) are impacting its business. Following the announced changes to enhancement 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 second road investment strategy 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 reasons outside its control, such as 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.

4. National Highways did not meet all of its revised 2022 delivery plan start of works (SOW) and open for traffic (OFT) commitments.

5. Some of National Highways' unachieved commitments were due to reasons beyond its control, such as statutory planning delays. The company used formal change control processes to agree with government new delivery date commitments for these schemes.

6. However, some of National Highways' unachieved commitments were due to factors government deemed to have been within the company's control and have been recorded as missed

commitments. For its commitments due 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 that have been classified as missed commitments (two for SOW, three for OFT and two schemes declared that they will miss their OFT commitments). Information provided by the company suggests that the majority of these missed commitments are as a result of procurement issues, specifically linked to supply chain management and commercial contract management. We are seeking action from the company to ensure that it learns lessons and embeds them into its business.

7. Since the start of RP2, we have seen several risks affect National Highways' delivery of its enhancements portfolio and its ability to achieve its SOW commitments. We anticipate that these risks will continue for the remainder of RP2 and beyond. The key risks to portfolio delivery over the reporting year were:

- schemes gaining planning consent, in particular development consent orders (DCOs). Several schemes had legal challenge. The key reasons for the challenges were 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 scheme programme delay that could require the company and government to agree further changes to the delivery plan. We will continue to hold the company to account to deliver any revised commitments; and
- National Highways forecasts that the total outturn costs for delivering the second road investment strategy (RIS2) enhancements portfolio rose by 13% (from £25,388 million to £28,613 million) in the reporting year. This was primarily caused by delays and inflation. The company, in-line with a DfT ministerial statement, has mitigated the cost pressure on the RP2 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 capital budget in the reporting year. However, in-line with its governance, it moved £357 million (10%) of 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 several years as it affects the longer-term efficiency and sustainability of the strategic road network. In the reporting year the company introduced a new reporting tool that improved the information we see about the decisions that it takes regarding its 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.

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

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

10. However, we note 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 National Highways 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 the company's renewals scheme delivery. Continued, regular, reporting will strengthen our ability to hold the company to account to deliver its renewals programme.

11. Pavement renewals are a good example of the need for National Highways' renewals reporting to demonstrate best practice whole-life asset management. In January 2023, National Highways forecast that it would miss its pavement condition key performance indicator (KPI) target. The company used updated asset condition information to adjust its renewals programme, 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.

12. National Highways has stated that a reason for the reduction in the pavement condition forecast was due to the impact of 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.

13. 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. The company must also 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 to deliver its end of road period targets. In particular, we will scrutinise and evaluate the company's plans to deliver biodiversity improvements and corporate carbon reductions.

14. 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. As a result of 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.

15. In the reporting year, government agreed to adjust National Highways' RP2 corporate carbon reduction KPI target. This was because grid electricity production is more carbon intensive than was forecast in 2020 when the target was set. The company remains committed to reducing its electricity usage by 22% by the end of RP2 compared to the baseline as originally planned.

16. National Highways has plans in place that it believes will 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 enable it to meet its performance targets.