Annual assessment of National Highways' performance 2023 to 2024

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 to deliver RIS2, its broader licence commitments and how it achieves its targets. This report sets out our assessment of

National Highways' performance and delivery between 1 April 2023 and 31 March 2024, the fourth and penultimate year of RP2. It is referred to as 'Year 4' throughout this document.

At the end of Year 4, there were a number of decisions relating to National Highways' funding and deliverables for the final year of RP2 progressing through the formal change control process. This process has operated successfully since 2015 and allows the Department for Transport (DfT) and the company to transparently agree changes to the RIS as circumstances change. The timing of the General Election on 4 July 2024 meant that government was unable to complete the process before this report was published. In line with established practice, we are reporting against the company's approved public obligations. Should changes be made to the company's obligations we will consider how best to ensure that these are sufficiently transparent.

Summary of performance

National Highways is at risk of not being able to fully deliver the expected benefits of RIS2 for road users and taxpayers. This is due to a combination of factors within and outside of the company's control.

National Highways has met three of its four in-year targets for Year 4. However, through the year we have observed a number of areas where the company's performance has declined against the key performance indicators (KPIs) set in RIS2 for Year 4. It is at risk of missing four of its 12 KPIs at the end of RP2.

In Year 4 of RP2, National Highways successfully opened for traffic four enhancements schemes and started work on one. However, the number of missed enhancements commitments has increased by four: three in Year 4 and one from Year 5, taking the total to 11 for RP2.

National Highways has continued to deliver its renewals and maintenance programme. There continue to be large variances between the company's planned and actual renewals programme delivered in-year without a clear explanation as to the cause. This, in combination with an increase in urgent and non-urgent defects not being rectified to expected timelines, resulted in us engaging with the company to understand its ability to apply effectively its asset management strategy and policy.

While National Highways has met a number of its performance targets, we raised wider concerns through the year about the company's capability underpinning its performance and delivery. In February 2024 we launched an investigation to understand the cause of the dip in performance and what could reasonably be achieved in the remaining months of the road period.

We found that National Highways was non-compliant with its licence in respect of the provision of data and information to allow us to perform our statutory duties, protect the interests of road users and ensure the efficient spend of public money (condition 7.3(e)). It is imperative that we have access to the necessary data and information to enable us to fulfil our statutory duties so that we can appropriately hold National Highways to account to drive performance and efficiency. The company has already identified improvements it will make, and we will continue to engage with the company on how it should improve and come back into compliance. The investigation documents can be found on our website.

National Highways has had to manage uncertainty in its enhancements portfolio and available funding in RP2. This is primarily a result of delays emanating from legal challenges to planning decisions, the impact of high inflation and delays to government decisions required to alleviate potential affordability constraints in future road periods.

The consequence is that National Highways has needed to take account of a gap of £919 million between its Statement of Funds Available (SoFA) for RIS2 and the funding available within DfT business plans for Year 4 and Year 5 of RP2. It has managed its spending and activities in Year 4 to accommodate a reduced budget across the final two years of the road period.

There continues to be uncertainty on the funding available to National Highways and the commitments and targets that it is required to achieve in the final year of RIS2. Decisions on changes to funding and its portfolio need to be confirmed by government so the company can adjust its programme and resources accordingly.

Delivery of targets, commitments and capital programme

In our annual assessment of National Highways' performance in Year 3 of RP2, we highlighted a number of risks to the company's delivery of its RIS2 commitments. While the company has delivered in some areas and met a number of its annual targets, we have observed that performance across other areas has dipped and risks previously identified have crystallised.

National Highways has achieved three of its four in-year KPI targets, on pavement condition, incident clearance and roadworks network impact. It is forecasting that it will achieve its efficiency target and it also has good plans in place to deliver its biodiversity and noise targets by the end of the road period. Particularly on biodiversity, this success is in part due to the robust approach we took in previous years challenging the company to produce a credible plan.

Current trajectories indicate that National Highways is at risk of not meeting some of its other performance commitments for the end of RP2. At the end of Year 4 the company was below target or off track against four of its 12 KPIs. These are:

(a) the number of people killed or seriously injured on the SRN;

(b) average delay;

(c) National Highways' carbon emissions; and

(d) roadworks information, timeliness and accuracy.

We also believe that it will be challenging for National Highways to maintain current levels of road user satisfaction in the final year of RP2.

National Highways is seeking to change the target for three KPIs (roadworks network impact; roadworks information, timeliness and accuracy; and efficiency) and set a target for one other (road user satisfaction) to ensure its performance specification remains challenging and deliverable in the final year of the road period. Any changes to KPIs are subject to decision and approval by government. Even if the changes proposed by the company are agreed, it will need to make a concerted effort to achieve these targets by the end of the road period.

National Highways delivered five of its ten enhancements commitments for Year 4. However, the company missed three of its enhancements commitments for Year 4 for reasons that are deemed to have been within its control. It has also declared that it will miss a commitment that was due in Year 5. This brings its total missed commitments for RP2 to 11.

Following our last annual assessment, we continued to have concerns about National Highways' ability to evidence the application of its asset management strategy and policy. This has manifested in significant variances, in under and over delivery, between the asset renewal work that the company planned and what it ultimately delivered this year. The absence of clear evidence to demonstrate the cause(s) of these deviations suggests that the company's planning needs to further mature to ensure that it is efficiently implementing its asset management strategy and policy. The company's performance rectifying urgent defects within its own permissible time limits has worsened to 87.4% against its delivery plan target of 90%.

Technology availability on the SRN as a whole has reduced to 91.4% in Year 4 compared to 95.3% in Year 3. Technology availability on smart motorways is reported separately in our annual assessment of safety performance on the SRN, which we published in December 2023. We reported that, as at September 2023, the average availability of four key technology assets on smart motorways was 95.6%; stopped vehicle detection (SVD) availability was 99%.

In our second annual assessment of safety performance on the SRN we reported that, in 2022, National Highways had achieved a 38% reduction in the number of people killed or seriously injured (KSIs) compared to a 2005 to 2009 average baseline. We identified that, despite the longer-term downward trend in KSIs, the company was not on course to achieve the RIS2 safety target of a 50% reduction in KSIs across the whole of the SRN by the end of December 2025, and that increasing traffic levels would make this harder to achieve. We therefore required the company to produce a robust plan by the end of March 2024, which it has done, setting out how it will achieve its target.

It appears that National Highways is doing everything it can in the final year of RP2 to try to meet the target. However, our assessment is that it is improbable that these actions will deliver a sufficient reduction in KSIs to achieve the RIS2 target set by government.

ORR's investigation of National Highways

Over the past nine years, National Highways has been generally successful in achieving its aims and delivering for road users, taxpayers and communities. However, over Year 4 we observed a number of areas where performance had dipped and some of the risks that we identified in our last annual assessment had crystalised. Individual items of concern in relation to the company's performance are often manageable on a case-by-case basis, as we have successfully shown through our holding to account work over the past nine years. However, because of the number and breadth of our concerns in Year 4 and the proximity to the end of the road period we decided that a more formal approach to assessing the company's performance was necessary.

In February 2024, ORR launched an investigation into National Highways' performance, delivery and capability. Our investigation was aimed at understanding the root causes of the company's dip in performance, and whether it was and is taking every action that could reasonably be expected of it to achieve its targets by the end of RP2 in March 2025.

National Highways positively engaged with the investigation and provision of information. After an extensive process, based on the evidence submitted by the company and representations it made, we found that the company was non-compliant with its licence in respect to the provision of data and information to allow us to perform our statutory duty (condition 7.3(e) of its licence).

ORR has a role to drive improvements in performance by National Highways for the benefit of road users, communities and the taxpayer. Therefore, it is imperative that we have access to the necessary data and information to enable us to fulfil our statutory duties. This allows us to provide timely and well evidenced advice to the Secretary of State, and transparency to the public, about the performance and efficiency of the company.

National Highways has already identified some improvements it will implement in response to our findings. We will engage with the company as it finalises its improvement plan to demonstrate it is coming back into compliance. We expect that these improvements will support better understanding of the risks and mitigating actions the company is implementing to enable it to meet its RIS2 commitments and delivery of its licence obligations.

Uncertainty and financial pressures

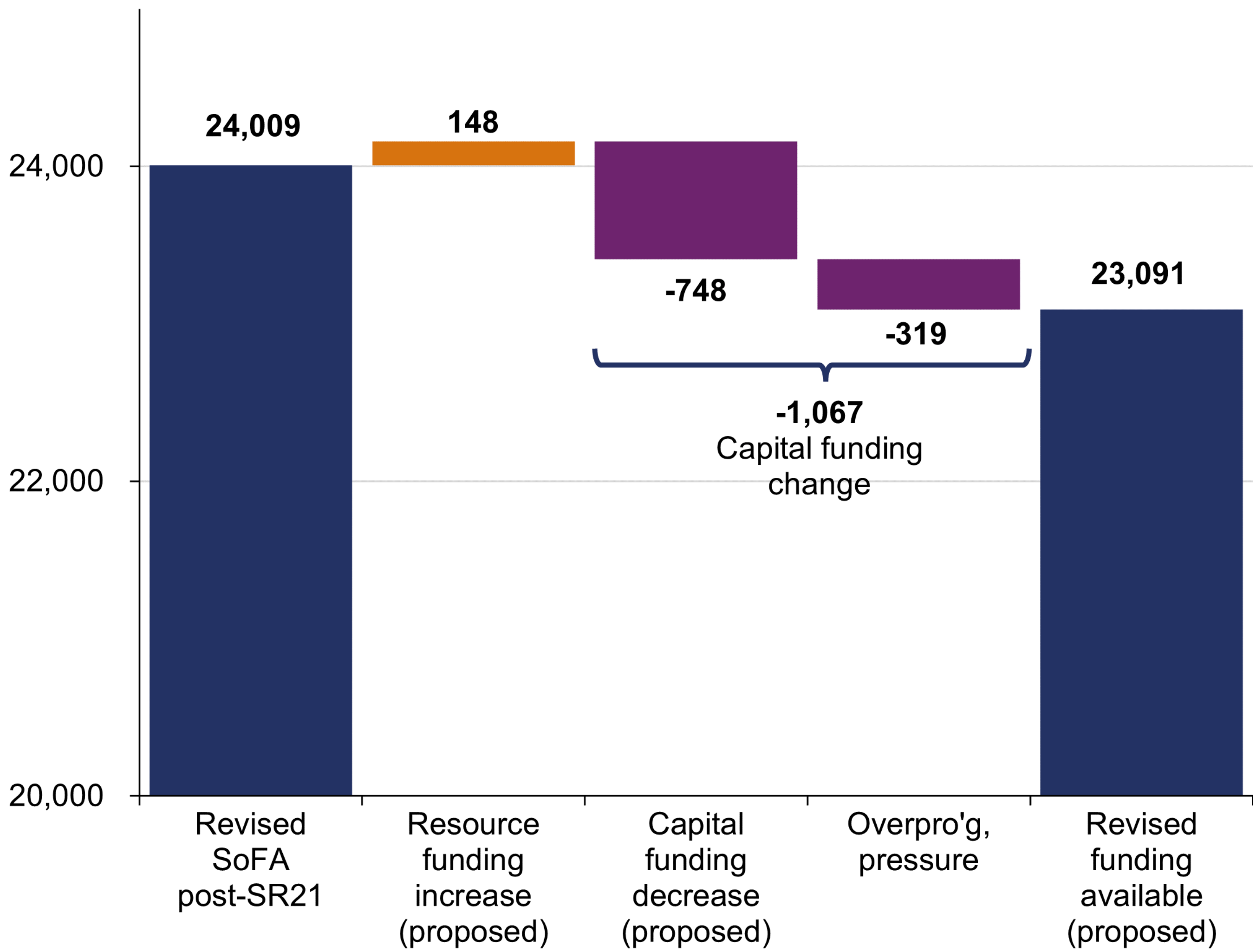
National Highways has been required to manage significant uncertainty and financial pressure due to delays in planning decisions – including legal challenges, high inflation, reduction of available funding in RP2, potential future affordability constraints and delays to government decisions.

The company has been required to manage its budget in Year 4 of RP2 to account for an expected £919 million gap between the SoFA and the funding available within DfT business plans for Year 4 and Year 5. It has done this through managing its spending and activities in Year 4 to meet the expected reduced budget for Year 5 (the final year of the road period).

These matters are not within the company's control and have arisen from wider financial pressure and affordability challenges. However, the company has not been able to clearly evidence the consequences for or impacts on the outcomes for road users.

Funding for Year 5 of RP2 has not yet been confirmed and is pending approval by government. National Highways has developed a proposal for how it could manage its budget in the final year. Within the expected £919 million overall reduction in the available funding, resource funding increases by £148 million to manage inflationary pressures and there is a net reduction of £1,067 million to capital funding. The company is proposing to achieve this, subject to approval, through reduced funding across its capital portfolio. Figure 1.1 shows the proposed net effect of these changes.

Figure 1.1 Change in RP2 funding proposed during Year 4 of RP2 subject to government approval (£ million), March 2024



National Highways is still expected to have to manage £319 million of underfunding (that it is calling "pressure") in the final year of RP2. The company will need to carefully manage the impact of this pressure on RIS2 outcomes through the final year of RP2 and communicate the consequence to users and stakeholders.

The portfolio that National Highways is currently required to deliver in the final year of RP2 appears to be undeliverable if these budget constraints are not resolved. The company needs government to make decisions to provide certainty on the portfolio and allow it to prepare for the next road period.

Looking towards the final year of RP2

National Highways is facing a very challenging final year of RP2. If performance continues on its current trajectory the expected benefits of RIS2 for road users and taxpayers are at risk. This is the result of a combination of factors within and outside of the company's control.

National Highways needs certainty as to the commitments it is required to deliver in its final year and the available funding to do so. Decisions need to be finalised so that the company can adjust its programme and resources accordingly if it is to deliver successfully for road users and taxpayers.

However, it is important that National Highways improves its evidence to demonstrate how it is effectively managing risks to its performance and delivery and that it is making the best use of public funds as it prioritises its activities.

We have welcomed National Highways' positive response to our investigation and its commitment to produce a plan to improve its collection, recording and provision of data and information. These improvements are important to enable the company to more effectively evidence its decision-making, transformation, and challenges it needs to manage through this road period and into the next.

Ultimately, it will better enable the company to deliver positive outcomes and benefits for road users and taxpayers. In addition, it will allow us to effectively hold the company to account, providing transparency, through proportionate and targeted scrutiny and challenge on behalf of the public.