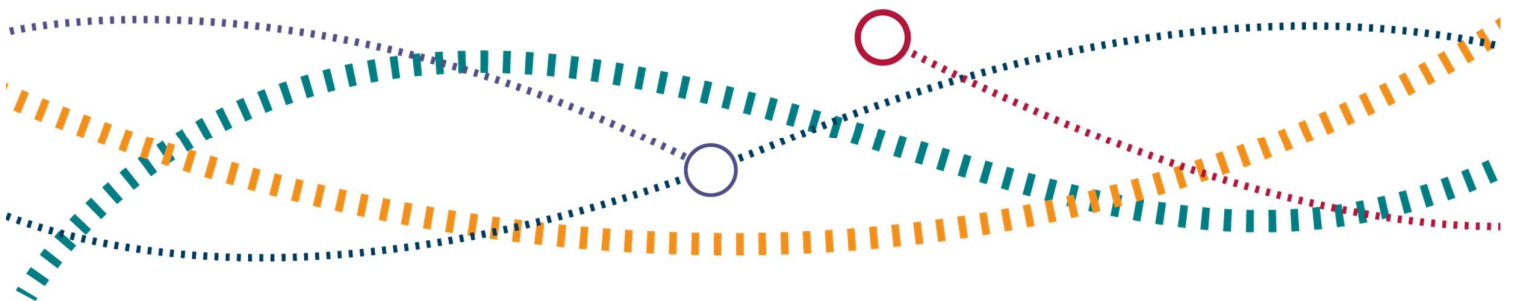




Advice to Department for Transport on an interim settlement for National Highways for 2025-26

Addendum to Advice Note 1: Affordability and
deliverability

17 February 2025



1. Introduction

- 1.1 The second road period (RP2) is due to end on 31 March 2025. National Highways' funding for the period April 2025 to March 2026 will be determined through an interim settlement. The Department for Transport (DfT) has asked ORR to review the company's preliminary plans for 2025-26 and provide advice to inform the final settlement.
- 1.2 In December 2024 ORR provided advice to DfT on the affordability and deliverability of plans (termed 'Advice Note 1'). Our advice was based on a high-level review of National Highways' emerging plans for the Interim Period submitted on 22 November 2024.
- 1.3 Our assessment considered all aspects of National Highways plans. In respect of capital renewals, we concluded that whilst plans for 2025-26 are likely to be deliverable, we had not been provided with sufficient evidence to demonstrate planned volumes represent an efficient level of delivery.
- 1.4 Since then, the company has revised its proposals in some areas and provided further information on its plans to support their efficiency. The purpose of this addendum is to update our advice based on this updated evidence.

2. Assessment

Overview

- 2.1 In December 2024, we drew the following conclusions regarding National Highways' emerging renewals plans:
- (a) whilst we have not had the opportunity to review the company's asset-level plans in detail, the allocation of spending across different asset types appears broadly appropriate;
 - (b) based on the overall funding that National Highways has allocated for renewals, and the balance of spending by asset type, the company's plans are likely to be deliverable;
 - (c) however, given the funding allocated, we have yet to see evidence that the volumes of renewals proposed have been set at a sufficiently challenging and efficient level.
- 2.2 Our concerns regarding efficiency were primarily because planned renewals outputs (measures of the volume of work that will be undertaken) were, on a unit cost basis (i.e. per pound spent), lower than previously proposed in the company's interim draft Strategic Business Plan (SBP) which covered the period 2025-26 to 2029-30.
- 2.3 Since then, the company has revised its proposals in some areas and provided additional information to support their efficiency. This addendum reviews the updated plans for six key asset classes. While our original concerns extended beyond these six types, they represent the largest share of planned spending—over four-fifths of total costs—and are therefore the most critical in assessing overall efficiency.
- 2.4 In some cases, National Highways has increased planned volumes to align more closely with the interim draft SBP or reduced the gap between its lower and upper-bound scenarios. In other areas, it has provided stronger evidence explaining why volumes may be lower in 2025-26. Typically, these explanations cite higher unit costs due to the specific nature of renewal schemes and activities or a re-profiling of activity, with increased spending on development or construction works that will not yield outputs until 2026-27 or later.

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- 2.5 This evidence provides greater confidence that, in several areas, National Highways' approach is logical, and its plans are likely to be efficient. Nevertheless, uncertainties remain for some asset types, where further evidence is required to support the efficiency of plans and output levels may still be subject to change.
- 2.6 We recognise that there are challenges when setting an annual settlement as funding is required for the progression of design and preparatory work that will realise outputs and outcomes in subsequent years. In such cases, we have set out where we would expect National Highways to provide additional information, either in its Delivery Plan or via on-year reporting, to ensure we can robustly hold the company to account for delivering those activities. This will help to provide confidence that the company is not only delivering the interim period requirements but also preparing effectively for RP3. We will work with National Highways on the level and format of detail required to facilitate reporting arrangements and, where required, set out in guidelines to the company once the interim period Delivery Plan is finalised.
- 2.7 We will continue to work closely with National Highways as it prepares its Interim Period Delivery Plan to provide DfT with the assurance that the final interim period renewals plans are robust and efficient. We are satisfied that the company is working towards this goal, and we have agreed an action plan for the work it will undertake and the further evidence it will provide (for all asset types, not just the six key asset types featured in this note) before finalising its Delivery Plan.

Updated interim year renewals plans

- 2.8 Table 1 summarises planned outputs for the six asset classes under current plans as compared with the position in November 2024.

Table 2.1 Capital renewals: funding allocation and planned outputs

Asset type	Planned expenditure (£million)	National Highways' proposed output commitment (November 2024)	National Highways' proposed output commitment (February 2024)
Flexible (asphalt) pavements	324	1,315 lane km (+/- 2%)	Unchanged
Rigid (concrete) pavements	75	22 lane km of reconstructive renewals	Unchanged*
Structures	339	No information provided	76 significant structures schemes progressed

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Asset type	Planned expenditure (£million)	National Highways' proposed output commitment (November 2024)	National Highways' proposed output commitment (February 2024)
Drainage	85	31 to 51 flooding hotspots mitigated	41 flooding hotspots mitigated (+/-5%)
Roadside technology	119	CCTV: 270 to 500 assets Signs: 168 to 313 assets Signals: 199 to 396 assets	Unchanged*,**
Vehicle restraint systems	74	228 to 294 kms of barrier	261 kms of barrier (+/-5%)

* National Highways has proposed strengthened monitoring and reporting arrangements for planned development activities. ** National Highways has indicated that the range between the upper and lower bound scenarios will be reduced.

Assessment by asset type

Flexible (asphalt) pavements

- 2.9 National Highways has proposed delivering 1,315 lane kilometres of asphalt pavement renewals during 2025-26, with a budget of £320m. The company proposes a 2% range around the commitment. We are unclear as to the basis for this range and we are concerned that the effect including this tolerance would be to reduce the effective target by 2% with no clear rationale for doing so. We appreciate that renewals plans will be subject to a degree of change during the year. As per our holding to account policy, where there are good reasons to explain why outputs are lower in practice than originally anticipated, we take this into account in our monitoring.
- 2.10 At 1,315 kilometres National Highways' proposal represents a reduction in volumes compared to the 1,650 lane kilometres delivered annually on average in RP2. Based on the unit rates underpinning the company's RIS3 interim draft SBP, and assuming all other factors remain constant, the proposed investment level implies that up to 1,900 lane kilometres could be delivered.
- 2.11 We recognise that the cost of pavement renewals schemes can vary widely depending on the characteristics of the scheme in question. For example, deeper pavement renewals (at 100mm to 180mm) are significantly more expensive than shallow renewals (up to 50mm). An increase in the average pavement depth could result in higher overall unit costs. Therefore, there may be factors, based on good asset management, that explain a reduction in planned volumes in any given year.

- 2.12 As part of its action plan for finalising interim period renewals plans, National Highways has committed to undertaking a review of its pavement plans both to challenge current estimates and to provide evidence to support the efficiency of its plans. We will work closely with the company during this process.
- 2.13 If DfT adopts National Highways' current proposal of 1,315 lane kilometres, we expect this will need to be revised upwards (or costs revised downwards) once plans are finalised.

Rigid (concrete) pavements

- 2.14 As outlined in our advice on the interim draft SBP, the concrete roads programme remains in flux due to higher-than-expected costs and delays experienced during RP2. Consequently, National Highways will make less progress than anticipated towards its stated goal as set out in its RIS2 draft SBP to replace the legacy concrete pavement assets with modern designs by the end of RIS6.
- 2.15 In 2025-26, National Highways' is proposing to limit concrete pavement renewals to the completion of the overrunning M27 Junction 5 to 7 concrete overlay scheme, delivering 22 lane kilometres of concrete reconstruction at an anticipated cost of £46 million. This is in line with our current expectations of this scheme and, as a complex, high-cost renewal, we will track its progress via the new strategic renewals reporting and monitoring arrangements already described.
- 2.16 It is not feasible from a practical or financial perspective to replace all concrete roads in a short period of time. Consequently, National Highways undertakes life extension works, such as pothole and joint repairs, while prioritising reconstructive renewals (replacing concrete road surfaces with asphalt) for routes most in need of treatment. During RP2, the company delivered a combination of reconstructive renewals and life extension works. The interim draft SBP outlines plans to continue this approach, combining reconstructive renewals with life extension works. However, National Highways has indicated that no life extension renewals will be delivered in 2025-26.
- 2.17 This leaves £29 million, of which £6.5 million will be spent by regional teams on the design of upcoming schemes, while £22.5 million will be allocated to the national concrete roads programme for activities such as optioneering, condition surveys, and innovation work. By comparison, during RP2, the concrete roads programme expects to spend approximately £31 million on development activities over the entire five-year period.

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- 2.18 Managing and replacing life-expired concrete roads is a relatively new area, necessitating research and development activities. National Highways suggests that the higher level of spending is due to the way it has profiled its plans, with development activity 'front loaded' in 2025-26. Nevertheless, the proportion of funding allocated to these activities in 2025-26 (39%) is relatively large. Therefore, it is important we hold the company to account for completing these activities, as well as delivering renewals outputs.
- 2.19 In its action plan National Highways has committed to providing further details of planned development activities, their anticipated benefits, and how they will contribute to the efficient delivery of the concrete roads programme. We will work with the company to agree how progress will be reported and monitored during the interim period.

Roadside technology

- 2.20 National Highways proposes renewing between 637 and 1,209 assets, across CCTV, signs, and signals asset sub-types. Such a wide range is unsuitable for a firm commitment and would make it difficult to determine if they have successfully delivered within the allocated funds. The company has indicated that it will provide more accurate forecasts before finalising its plans and has provided some initial proposals in this regard.
- 2.21 The level of outputs planned for 2025-26 is reduced from the level set out in the interim draft SBP. In large part, this is due to the intended profile of activity, with more design, development and procurement activity taking place in 2025-26 for outputs that will ultimately be delivered in 2026-27. This profile was not reflected in the plans set out in the interim draft SBP which were less detailed. As for rigid pavements, National Highways has agreed to provide details of development activities in its interim period Delivery Plan and report on their progress during the year.
- 2.22 Before finalising its plans, National Highways should provide further details of its plans for roadside technology renewals including evidence to support its cost estimates and we are satisfied the company is working towards this aim. This is particularly important as there is significant public scrutiny around the capability of National Highways ability to maintain and renew its technology assets.

Drainage

- 2.23 Under the plans submitted in November 2024, National Highways indicated that it would renew drainage assets between 31 and 51 flooding hotspots in 2025-26.

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Subsequently it has provided a more accurate estimate of 44 flooding hotspots. We are satisfied that this aligns with the approach set out in the interim draft SBP and recommend DfT adopts this target in the investment plan.

- 2.24 National Highways has proposed a tolerance of 5% either side of its forecast. As for the ranges proposed for other asset types, whilst we recognise that plans may change during the year, we don't see the purpose of introducing a range, the scale of which is unknown.
- 2.25 As National Highways points out, the number of flooding hotspots renewed is a relatively crude measure of performance and efficiency. Therefore, during the remainder of the RIS3 development process, we plan to work with the company to develop improved measures of success.

Vehicle Restraint Systems (VRS)

- 2.26 As for drainage, National Highways has provided updated forecasts for VRS since its November 2024 submission. The company is proposing a target of 261 kilometres of steel barrier renewal (+/-5%).
- 2.27 Under the current plan, the implied unit cost of barrier renewals would be lower than that used in National Highways' interim draft SBP by around 14%.
- 2.28 The cost of barrier renewals depends largely on the chosen solution, including the required containment level and whether the project involves repairing an existing barrier or fully replacing a life-expired one. The activity that the company undertakes has implications on both the risk it is mitigating on the network and the overall whole life cost. It may be acceptable for the company to deliver a lower total length of barrier if it demonstrates a higher proportion of full replacements. Therefore, we recommend that the company reports its outputs in a way that separately specifies the lengths of barriers to be repaired and fully replaced.

Structures

- 2.29 The structures renewal programme consists of four sub-programmes: significant structures, predictive renewals, priority risk structures, and the Avonmouth Viaduct, which is treated as a standalone scheme due to its size and complexity.
- 2.30 In our advice on the interim draft SBP, we questioned National Highways' decision to remove funding from its preventative renewals programme, which could reduce the whole-life cost of maintaining some ageing structures. There appear to be no plans to continue this programme in 2025-26, and no evidence has been provided to justify this decision.

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- 2.31 The significant structures programme accounts for the majority of structures renewals costs. In 2025-26, National Highways is proposing to progress 76 significant structures projects, 49 of which are already in progress and 27 will commence during the year. We recommend DfT adopts this target in its investment plans.
- 2.32 To date, National Highways has defined the outputs of this programme in terms of the number of significant structures schemes progressed. Under this approach, if a scheme progresses more slowly than anticipated, the company could still claim an output simply on the basis that some development or construction activity has taken place. We consider this to be ambiguous and provides a poor basis for assessing performance and efficiency. Therefore, we recommend the interim period Delivery Plan sets out commitments relating to the number of significant structures projects that will be fully completed, and the number of projects progressing to specified design, development or construction milestones