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Via email

Copied to:

Elliot Shaw
Chief Customer and Strategy Officer
National Highways

17 December 2025

Dear Kate,

Interim period Q2 data update – National Highways’ renewals efficiency reporting

Summary

I wrote to you on 20 October 2025 and summarised our views on the additional reporting provided by National Highways at your request on its renewals programme for the first quarter (Q1) of the Interim Period (IP). We have now received and reviewed the second quarter’s (Q2) operations, maintenance and renewals (OMR) dataset.

The Interim Settlement specified output commitments for six asset types: asphalt road surface, concrete road surface, safety barriers, flooding hotspots, technology and structures. Quarterly output volumes delivered and forecast outputs have now been made available for each asset type, except structures. Costing data is being reported on a quarterly basis, but it remains limited to the three cost categories within National Highways’ capital portfolio reporting (renewals of roads, tunnels/technology and structures). Additional information has also been provided for reporting on Large Renewal schemes that have forecast costs of over £50m. The company has also improved its reporting of non-asset specific renewals spend (for example traffic management); in the future the 26% of renewals costs that we previously reported as unassigned will be apportioned to specific asset types.



National Highways remains unable to provide quarterly forecast and actual spend data against outputs for all individual asset types. Therefore, we cannot provide a complete view on the company's delivery of its renewals programme as originally intended. The company is still reporting that the earliest that it can provide quarterly forecast and actual spend against individual assets remains the end of the IP, ready to be used in the third road period (RP3).

Q2 Renewals Position

The overall level of detail provided in the Q2 data has improved on that of Q1. National Highways is still not able to report and demonstrate the efficiency of its whole renewals programme, but the progress that the company has made gives us confidence that it will achieve the necessary improvements for the start of RP3. We expect to see more improvements in its Q3 reporting, which we will receive on 5 February 2026.

As with the Q1 position, National Highways is continuing to report the largest variance in spend against its forecast in Q2. At the end of Q2, the company is £92.8m (14.1%%) under its expected year-to-date renewals spend position, an increase in underspend of £55.8m during Q2. This is against a total planned spend of £659.3m, across all asset renewal types. The company states that this Q2 underspend increase is primarily because of £37.5m due to programme management issues and design delays in its East region and £12m on the M6 Lune Gorge Large Renewal in its North-West region (see below).

National Highways is now forecasting to deliver its renewals programme under its £1,596.2m budget at the end of the IP by £23.3m (1.8%). This reduction is almost entirely due to the M6 Lune Gorge Large Renewal scheme, where the company has realised beneficial whole-life savings related to changes to construction sequencing and on-site savings.

Whilst we are unable to see how National Highways is spending per asset type, we see other cost and schedule stability measures of the planned programme that indicate that the company is, at Q2, on track to deliver its intended renewals programme outputs at the end of the IP.

National Highways' renewals delivery programme was originally back-end loaded. Further under-delivery of outputs in the first two quarters of the IP has increased delivery pressure in the last two quarters of the IP. This is a trend we commonly see each year. This, alongside the company reporting an underspend, indicates that its renewals programme is at greater risk of not delivering the committed volume outputs. However, it is too early for us to be able to quantify this risk.

National Highways has further developed its approach to allocating the costs and outputs for renewals. It has developed an approach to assign indirect non-asset costs that we previously reported had a value of £2,110m in RIS3 costs. This has increased our confidence that it will have processes in place at the start of RIS3 for reporting all costs across its renewals portfolio.

Q2 Asset Specific Renewal Detail

The key findings from the asset-specific output data for Q2 are as follows:

1. Flexible, asphalt, pavement Q2 outturn output delivery was under its forecast delivery by 18.3%. National Highways delivered 389 lane kilometres (lkms) in Q2 against its forecast of 476lkms. The company states this under delivery in Q2 was due to poor weather experienced in its North-West region. The company is currently forecasting output performance well within the agreed delivery range. Performance has improved from a 6% under delivery at Q1 to less than 1% (8.3 lkms). This has been achieved by identifying and including extra pavement outputs across the existing renewals programme. The company remains very confident that it will meet its end of IP commitment.
2. Rigid, concrete, pavement had 12lkms planned outputs in Q2 from the one scheme that will be constructed in the IP. The company delivered 13lkms and is reporting to be on track to achieve its IP-end output commitment of 22lkms.
3. Safety barriers exceeded National Highways' forecast for Q2 by 31lkms. The company has further increased its end of IP forecast by 8%, taking the total over delivery to 18% above its original target, substantially above the 5% upper range of its target. This increase is attributable to the addition of two schemes in North-East and East regions, for affordability and asset need reasons, respectively.
4. The mitigation of flooding hotspots as at the Q2 point is seven mitigations delivered against National Highways' plan of 12. The improved reporting we required led the company to identify and correct errors in its Q1 reporting. This provides early evidence of the benefits of this new approach. Despite this under delivery at Q2, the company is still forecasting end of IP outputs above its target.
5. Delivery of technology renewals output reporting has been significantly improved for Q2, through the implementation of quarterly delivery output forecasts. This data is new and we cannot see whether National Highways is under or over delivering, however its remaining delivery forecast is heavily loaded to the end of the year. The company is forecasting performance, across each technology sub-asset, in the bottom half of the delivery output range.

- i. As previously stated, the output ranges for technology presented in National Highways' delivery plan are very wide and therefore limit our ability to assure efficient investment. The company proposed that it would adjust ranges via change control by the end of Q2, but it has yet to do this still. If this change does happen and the banding is tightened, it may mean that the company's performance forecast becomes below the permissible updated range.
6. National Highways has reported that delivery of its significant structures renewals remains on target as at Q2. However, the company can not sufficiently evidence Q2 delivery output data, or future IP quarter's forecasts to validate its position. Without committed delivery milestones and supporting data, we cannot assess in-year progress and therefore whether delivery is efficient. The company is working to improve this, but it is finding the long delivery time period associated with this type of renewal challenging to quantify.

Next Steps

To maintain confidence that National Highways is progressing and making improvements to its outturn data, we will continue enhanced monitoring of the company's plan to improve its renewals cost and output reporting.

In the delivery of safety barrier renewals and the mitigation of flooding hotspots, National Highways' Q2 output forecasts place delivery above its agreed target range at the end of the IP. As per the department's interim settlement assumptions and expectations letter (31 March 2025), if National Highways is forecasting to outturn above the range, the company should discuss with the department so that it can understand if it remains efficient to continue delivery. We understand that the company presented some information to the department on the 10 December 2025 that the department is satisfied with.

National Highways is working to further refine its reporting for Q3. The company will provide quality assured IP Q3 renewals data, via its OMR reporting, on the 5 February 2026. My team will analyse this data, and I will write to you again setting out our updated Q3 view.

We will publish this letter on our website in due course.

Yours sincerely,

Feras Alshaker