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Analysis



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Copied to:
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Via email

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Dear Elliot

ORR's expectations of National Highways for the third road period (RP3)

On 16 July 2026, we published our annual assessment of National Highways' performance and delivery of the 2025-26 interim settlement. I am writing further to that report to set out our expectations of the company during 2026-27, the first year of the third road period (RP3).

This letter should be read alongside my separate letter of 24 July on our approach to holding the company to account pending publication of its third road investment strategy (RIS3) delivery plan, expected in autumn 2026. It complements our RIS3 monitoring letter (April 2026), our updated holding to account policy (March 2026), and our updated monitoring reporting guidelines (shared July 2026, published autumn 2026).

While our annual assessment did not identify any non-compliance that warrants further action by us, it highlighted issues that increase the risks to the efficient and successful delivery of RIS3 and that require National Highways' attention during the first year of RP3. Of note is the need for more robust internal arrangements that demonstrate stronger governance and clearer evidence of decision-making. These will be critical to the company's ability to identify, manage and respond to delivery risks throughout RP3.

Delivery readiness for RIS3

The interim settlement provided funding to National Highways to continue its day-to-day functions while allowing the government to align its plans with the June 2025

spending review. It also made financial provision for the company to continue work in preparation for RIS3. Although the company delivered its highest annual level of renewals expenditure to date, several programmes made less progress than originally intended.

In particular, the large renewals and concrete roads programmes experienced delays. The large renewals programme underspent by £37 million (33%), with evidence indicating that at least eight schemes had been delayed. The concrete roads programme underspent by £31 million (41%) due to a lack of appropriate design resource, and only one of the fifteen planned schemes progressed into design. Challenges were also evident in the on-road technology programme, designated funds and national programmes, and supply chain metrics for the enhancements programme indicate that some schemes are at an increasing risk of cost and schedule pressures that were also seen in the second road period (RP2).

Taken together, these outcomes increase the risks associated with delivering RIS3 and the efficiency of that delivery. While cost and schedule pressures are inevitable in programmes of this scale, National Highways must demonstrate that it has effective governance and control arrangements in place to identify emerging risks, respond to changing circumstances and make informed decisions about priorities and funding. Strong governance is essential to providing confidence that delivery risks are understood, actively managed and appropriately mitigated before they affect outcomes for road users and taxpayers.

Governance, risk management and value for money

For the interim year National Highways was only able to partially explain how funding underspends within its large renewals programme were reallocated. In addition, the company was unable to provide sufficiently robust evidence of the basis on which some decisions were taken, the outcomes expected from those decisions, or how efficiency, value for money and impacts on road users were considered. Although the underspend on these programmes was relatively small in the context of overall annual delivery, it is important to understand and communicate the rationale behind the associated cost and performance decisions. Their significance extends beyond the in-year financial position, as they may influence future delivery capability, programme outcomes, and risk.

National Highways is required under condition 5.12(c) of its licence to **"ensure it has in place robust internal arrangements to achieve, and to demonstrate how it has achieved, value for money"**. The company's limited ability to evidence how funding was reallocated, what outcomes were delivered as a result, and the basis on which decisions were taken raises questions about whether it can demonstrate that it has satisfied itself that it is acting in the manner best calculated to fulfil its duties under licence condition 4.2 when exercising its functions.

Effective governance is fundamental to National Highways' ability to manage delivery risk. Where programme costs, schedules or network needs change, the company should be able to clearly demonstrate how risks were identified, what options were considered, how decisions were reached and why those decisions represented the best use of available funding. Without this, it becomes difficult to confidently demonstrate that risks are being effectively managed and that decisions continue to support efficient delivery and value for money.

We therefore expect to see evidence that National Highways has strengthened its governance arrangements, particularly within its renewals and targeted fund programmes, and that these arrangements are providing effective oversight of risk, delivery performance and efficient investment decisions. To support this, we expect the company to provide quarterly updates on interim milestones for its large renewals projects, including commentary where milestones have changed, setting out the reasons for those changes and the associated impacts, including on road users and efficiency. We will continue to report annually on this, providing transparency on the key risks to the renewals programme and the extent to which they are being effectively managed.

Efficiency and value for money

The start of RP3 marks the return of a quantified efficiency target against which National Highways will be expected to demonstrate performance. This will be an important measure of whether the company is delivering value for road users and taxpayers. Without delivering the planned improvements, National Highways is likely to find it increasingly challenging to demonstrate that it is achieving its efficiency commitments for the period. Over RP3 we will expect the company to explain the reduction in the unit cost of its delivery and how this reconciles with the financial efficiency savings reported.

RIS3 requires National Highways to produce a plan to improve its efficiency reporting. We expect the company to provide that plan to ORR by September 2026 and to demonstrate timely progress in implementing it through its quarterly reporting. The implementation of this plan, and the pace at which improvements are delivered, will be a central focus of our next annual assessment.

We welcome the work already underway to improve how National Highways demonstrates delivery and efficiency within its renewals programme, including through greater cost disaggregation. We expect these improvements to be reflected in Q1 reporting and to provide greater transparency on decision-making, funding reallocations and delivery outcomes. In turn, this should provide greater confidence that the company is managing changing network needs, addressing emerging risks and securing value for money.

Our expectations during 2026-27

During the first year of RP3, we expect National Highways to:

- strengthen governance and oversight arrangements across its delivery programmes especially on large renewals;
- maintain clear and auditable records of investment and funding decisions at a suitable level of disaggregation across all the capital commitment areas of RIS3;
- demonstrate how risks to cost, schedule and delivery are identified, assessed and managed when reporting its progress on its capital commitments;
- demonstrate how efficiency, value for money and impacts on road users are considered in decision-making;
- improve the quality of efficiency reporting, including how efficiency savings link to changes in the unit cost of delivery across the different functions of the company; and
- ensure its internal arrangements support compliance with licence conditions 4.2 and 5.12.

National Highways must be able to demonstrate meaningful progress in these areas, at pace, and that we expect to see reflected in its quarterly reporting. This includes improvements to the quality of its evidence, reporting and internal arrangements. If it cannot do so, we will consider what further steps may be necessary.

Finally, my senior team and I would welcome the opportunity to meet with the National Highways Senior Leadership Team to discuss the successful delivery of RIS3 and what we will be looking to see from the company to achieve that. Please do not hesitate to contact me directly with any questions.

We will publish this letter on our website at a suitable opportunity.

Yours sincerely



Graham Richards