Annual Assessment of National Highways' performance: end of the second road period April 2020 to March 2025

Covering the year from 1 April 2024 to 31 March 2025 and the whole of the second road period (2020 to 2025).

Foreword

By John Larkinson, Chief Executive

This year's assessment of National Highways' performance and delivery covers the year 2024 to 2025 and the whole of the second road period (RP2, 2020 to 2025). This year I would like to take the opportunity to reflect on the evolution of the framework that governs the strategic road network (SRN), and the circumstances that have characterised the wider operating environment over the road period.

Roads reform: a decade delivering better highways

The end of RP2 marked ten years of Roads Reform. This was a fundamental change to how the SRN would be operated, maintained and improved to support economic growth. It was intended to provide long term certainty and a more flexible approach to delivery to drive innovation and efficiency in the sector for taxpayers and achieve improved outcomes for road users and communities.

A decade on, we continue to see the intended benefits of Roads Reform that started in the first road period (RP1, 2015 to 2020) and have been built on in RP2. This is important for the public and businesses: a third of all motorised traffic and over two thirds of lorry miles in England are driven on the motorways and main A-roads of the SRN. A high performing, safe, reliable network is vital to maintaining and supporting growth to the economy and will continue to be so in the future.

Role of ORR

ORR has played a key role in working with National Highways to help the company deliver these and other benefits over the past decade, on behalf of government. We have focused on identifying risks early to stop them becoming issues that affect road users. We have helped the company to mitigate or manage those risks so that public money is spent efficiently and road users have safe, reliable journeys. We do this in a way that is transparent, accountable, proportionate, consistent and targeted only where action is needed.

Our role has grown over the period too. The previous government asked us to undertake a review of the data and evidence used to underpin its understanding of safety on all lane running smart motorways, a topic that has attracted public interest throughout the period. Also, at the request of government, for the past three years we have produced an annual safety report looking at a variety of safety matters on the SRN.

The end of the road period is an opportunity for us to reflect and learn lessons and consider how we can more efficiently and effectively undertake our role. We will revise our holding to account policy before the start of the third road investment strategy (RIS3) to reflect those lessons.

Our assessment of RP2

Across RP2 we have seen National Highways develop its maturity and capability. It was the first time that all parties – the Department for Transport, National Highways, HM Treasury, Transport Focus and ORR – went through the full process of setting a multi-year road investment strategy (RIS). As we have finalised our views on how the company has performed and delivered over RP2, we have felt it important to recognise this in our conclusions.

Our assessment sets out what National Highways has achieved in RP2, and how it has learned lessons from both its successes and where it has fallen short of its RIS2 commitments. We have also indicated how we expect the company to apply these lessons and further develop capability in the interim period (2025 to 2026) and into the third road period (RP3) and beyond, to continue to deliver benefits for road users, taxpayers and the wider public.

We have reflected on where National Highways began at the start of RP2, where it is now and where we expect it to be in the future.

In our end of period assessment for RP1 we reported that National Highways had made good progress in its first five years, but moving forward as an established company, more would be expected of it. This included on safety improvements, customer engagement, and efficiently delivering a larger programme of works than in RP1.

In our advice to government before the start of RP2 we highlighted that National Highways had been challenged to deliver a portfolio that was larger and more complex than in RP1. We also identified the importance of ensuring clarity in any changes to funding during the period so that it was clear to the company, and to stakeholders and Parliament, what it had been asked to deliver.

RP2 started in April 2020. This coincided with the first lockdown triggered by the pandemic. This meant that National Highways began RP2, like everyone else in the country, responding to events that were not anticipated when RIS2 was set. The pandemic affected the company's ability to achieve its key performance indicator (KPI) targets in the first year of RP2 in different ways. Some targets became more difficult, for example because of workplace social distancing, while others were less challenging, for example due to reduced levels of traffic on the SRN. In year 2 of RP2, travel restrictions put in place for the pandemic eased and, as traffic levels across the SRN returned to close to normal levels, the company was able to return to business as usual.

Changes and challenges

During RP2, National Highways delivered the Department's smart motorway action plan. This was a significant task that was not part of the original plans for RIS2. It led to the national emergency area retrofit (NEAR) programme to build an additional 151 emergency areas on all lane running smart motorways. The work was delivered to a short timescale and affected large sections of the SRN. This had a negative impact on the company's delay and user satisfaction metrics.

Some of the risks around the RIS2 programme, both within and outside of National Highways' control, crystalised during the road period. For example, economic and inflationary pressures due to the war in Ukraine, wider commercial pressures and planning consent complexities. These issues added to the company's delivery challenges and, in some cases, resulted in changes to its plans and funding that it was required to manage, including 89 changes to its enhancements programme.

We examined some of the factors that were within National Highways' control in more detail in our 2024 investigation into the company's compliance with its licence and delivery of RIS2. We found that the company was non-compliant with its licence in respect to provision of data and information to allow us to perform our statutory duties. However, in response to our conclusions and wider observations, it committed to implementing improvements. The company developed a comprehensive improvement plan that it continues to deliver at pace. These activities are intended to help the company better understand and explain the trade-offs it must make to deliver on behalf of road users. They demonstrate a commitment to transparency and to building capability to ensure that the company takes decisions efficiently and effectively and help set it up for success in the future.

The future

As we work together with National Highways and the Department to develop and assess RIS3, I am mindful of what we have collectively achieved. The company achieved its efficiency targets for both road periods, delivering over £3 billion of efficiencies. Over the past ten years it has improved environmental outcomes in areas of carbon, noise, air quality and biodiversity, and the decrease in road casualties over the same period shows that the SRN is safer than it has ever been.

But more is being asked of the SRN than originally intended. The network continues to age and is required to withstand the increasing and diverse impacts of climate change. This is coupled with a tight fiscal environment. To ensure that it is able to sustain and support growth by connecting the nation it is vital that public funds are invested wisely. This assessment sets out lessons learned from RP2 that National Highways will need to apply to set itself up successfully to meet these challenges.
ORR will continue to hold National Highways to account in the interests of road users and taxpayers.

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 required the company 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 the company's performance and delivery in the final year of the road period and over the whole of RP2. References to performance and delivery between 1 April 2024 and 31 March 2025 will be referred to as 'the final year of RP2' or 'year 5' throughout this document.

Summary of performance

RP2 delivery and achievements

National Highways has shown that it is continuing to deliver efficiently by exceeding its RIS2 target to achieve £2.0 billion of efficiency improvements in RP2.

National Highways reported £2.2 billion of efficiency improvements against its target of £2.0 billion. The company made the largest efficiency improvements in renewals (£764 million) and the operating costs of its business (£538 million).

The government made changes to RIS2 outputs during RP2 that reduced National Highways' funding. This was in response to a period of high inflation, delays to achieving planning consent for enhancements schemes, smart motorway programme changes and wider government cost pressures. As a result, government reduced the efficiency target three times during RP2, following reviews by ORR of the company's proposed changes.

Despite these challenges, National Highways achieved significant efficiency savings as a direct result of being able to long term plan against a multi-year funding settlement, delivering better value for the taxpayer. By making these efficiency savings the company was able to deliver government's revised outputs and manage the effects of high inflation without requiring additional funding.

During RP2, we challenged National Highways' forecasting of efficiency, supporting evidence and management of risks to efficient delivery. The company responded positively to our challenge and made improvements in these areas that we expect it to build on in future road periods.

National Highways has incorporated inflation and other adjustments to the way efficiency is reported for cost increases outside its control. We have worked closely with the company to ensure these 'headwind' adjustments are reported appropriately, alongside our core role of monitoring and reviewing evidence for its reported efficiency.

National Highways has delivered significant improvements for road users in RP2. The company has

opened 30 major enhancements schemes for traffic, achieved better environmental outcomes and met targets for clearing incidents, mitigating the impact of roadworks and maintaining the road surface. However, it has not achieved everything that it originally planned in RP2 for reasons both within and outside of its control. We are pleased that the company has committed to improve in areas where it has not achieved its targets, such as delays and road user satisfaction.

In RP2, National Highways has delivered improvements for road users and benefits for wider stakeholders. The company has:

1. opened 30 enhancements schemes for traffic and had a further 11 under construction at the end of RP2;
2. delivered government's smart motorway action plan, as well as the challenging national emergency area retrofit (NEAR) programme that has added 151 new emergency areas to the all lane running smart motorway network;
3. supported reliable journeys for road users by meeting its targets for clearing incidents and mitigating the impact of roadworks on the SRN;
4. achieved three of its environmental key performance indicators (KPIs) by achieving no net loss of biodiversity, mitigating noise for 7,776 households, and delivering seven schemes to reduce public exposure to poor air quality; and
5. met its performance target for the proportion of the road surface in good condition and matured in its asset management capabilities through obtaining ISO 55001 certification.

However, National Highways did not achieve everything that was set out in RIS2. It did not deliver:

1. 11 enhancements to the committed dates for reasons that were within National Highways' control, specifically supply chain management and asset data issues;
2. two of its five renewals outputs commitments for reasons that were within National Highways' control; and
3. five out of 12 KPI targets (either missed or are likely to be missed) due to reasons both within and outside of its control. National Highways has:
    - across RP2 improved the timeliness and accuracy of its roadworks information, and delivered reductions in its corporate carbon, but not by enough to achieve its targets;
    - delivered its plans for managing delays on the SRN and improving customer service. Despite this, the company has missed its ambition to mitigate levels of delay, and its target for road user satisfaction; and

- made progress on safety, but it is improbable that it will achieve its KPI target of a 50% reduction in the number of people killed or seriously injured on the SRN by the end of 2025, compared to the 2005 to 2009 baseline.

We have looked at National Highways' RIS2 deliverables in the round – including KPIs, performance indicators (PIs) and narrative commitments. On balance we are content that on the evidence provided by the company, and its commitment to implement improvements, further action by ORR is not warranted. We expect the company to collate the lessons it has learned into a continuous improvement plan that it will implement over a timebound period. This should ensure that the company – and the wider Roads Reform framework – promote continuous performance and efficiency improvements in the third road investment strategy (RIS3) and beyond.

Learning lessons and future growth

As National Highways seeks to build on its performance and delivery in RP2, it must reflect on the lessons learned from both its successes and where it has fallen short of expectations. In particular, we expect the company to have more robust plans in place to enable it to better evidence the consequences of the decisions it takes during the road period. This is important to ensure that the company continues to deliver improved outcomes for road users and better value for taxpayers.

National Highways' ability to identify issues, evidence its decision making and actions taken, acknowledge shortcomings, understand causes and implement lessons learned is critical to its future success. The company needs to take forward improvements it has identified, notably that it starts the road period with clear, unambiguous plans and clearly evidences and justifies deviation from those plans, articulating the impact on performance for road users and investment of public funds.

During the first two years of RP2, we highlighted concerns about National Highways' capability underpinning its performance and delivery. For example, we identified that the company's plans were insufficient to deliver its KPI target of no net loss of biodiversity by the end of the road period. Our challenge and increased engagement prompted the company to develop a stronger plan that ultimately enabled it to achieve the target.

We identified other areas where National Highways' capability and planning similarly did not match the expected outcomes in the early part of the road period. This included the company's performance in relation to road surface condition and traffic officer response times on smart motorways. Again, through our proactive interventions the company identified and made the necessary improvements to meet its targets, so road users experienced smoother, safer journeys.

Even so, as the road period progressed, we saw an increasing number of areas where National Highways' performance had dipped, and risks that we raised previously identified had crystalised. The number and breadth of our concerns, and the proximity to the end of the road period, meant that, in February 2024, we launched an investigation to understand the reasons for the dip in the company's performance and to identify improvements that it could make to rectify this.

Our investigation found National Highways to be non-compliant with its licence (condition 7.3(e)) in relation to information the company must collect, record and provide to us to enable us to carry out our statutory functions to ensure that it is delivering efficiently and effectively for road users and taxpayers. We subsequently identified improvements that the company needed to make to address this.

The investigation further identified areas that National Highways needed to improve, particularly on how it gathered and provided evidence on how it made decisions and how it learned lessons and applied them to improve performance and/or delivery. For example:

1. in relation to the RIS2 pavement condition KPI, we found that National Highways was unable to demonstrate that the regional level plans it had put in place were well aligned to achieving its national target; and
2. for the KPI target to mitigate delays on the SRN, we found that National Highways was unable to consistently quantify the benefits of the actions it was taking to improve performance. This limited its ability to assess whether these actions were effective and therefore provided good value for money.

Improvements in the timeliness and detail of the information that National Highways provides to us will better support its and our understanding of the risks and mitigating actions the company is implementing or needs to do so in future. The company's continuous improvement in these areas will support our own efforts to be proportionate and targeted in our approach and ensure that we can provide timely and well evidenced advice to government, and transparency to the public, about the performance and efficiency of the company.

National Highways responded positively to the investigation and developed a comprehensive improvement plan to respond to the findings. The actions in the plan aim to improve National Highways' capability, evidence and assurance, and planning. In particular, it set out how it aimed to improve the quality, relevance and timeliness of the evidence and information it provides to ORR.

National Highways made good progress delivering the plan over the last year of RP2 and is continuing to do so in the interim period. It is important that the company continues to implement at pace the improvements it has identified in its plan. This includes improving its ability to understand the basis upon which it makes interventions, their impacts and how these translate into improved performance and delivery for road users.

Through our engagement with National Highways during this end of road period assessment, it has identified further lessons learned that it will apply moving forwards to drive better efficiency, delivery and performance. Specifically, the company has

1. developed a decision making framework to support whole company improvements to how it gathers and understands the evidence it uses to make decisions. From the interim period, we expect this to start generating better information and to allow National Highways to more proactively identify and react to emerging risks;
2. set out a programme of analysis and research to improve its understanding of delays on the SRN and support development of regional delay plans. The aim of which is to improve National Highways' ability to prioritise the actions that it takes to reduce delays to ensure that these are as targeted and effective as possible; and
3. developed and implemented improved regional plans that demonstrated a more assured approach to achieving its national pavement condition KPI.

In addition to those lessons identified by National Highways, on the basis of what we have observed of the company's performance and delivery, and the work we have commissioned and undertaken over RP2, the company should also demonstrate going forward how it:

1. has learned from RP2 the importance of evidencing the reasons for deviation from its original plans;
2. continues to improve its capability to demonstrate the impacts of its decisions on the performance of, and future risks to, the network;
3. continues to improve its asset management capability and understanding of its asset base, maturing its capability and governance to support growing renewals delivery; and
4. has mitigated the causal factors of missed commitments (specifically commercial management and scheme asset data issues) to reduce the likelihood of future recurrence.

We have seen evidence that the improvements that National Highways has delivered in RP2 – internal capability improvements and deeper understanding of what it needs to deliver, the trade-offs it must make and how best to make those – are resulting in better outcomes for road users and communities. However, it is important that the company continues to improve how it uses evidence to demonstrate that it is making the best use of public funds as it prioritises its activities. This will better enable it to evidence that it is delivering positive outcomes that benefit road users and efficient use of public funds. We expect this to be in the form of a plan.

We will work with National Highways and the Department over the interim period, and as RIS3 is developed, to ensure that these lessons are embedded and applied. This will help to set the company up for long term success and deliver better outcomes for road users, taxpayers and communities and support economic growth.