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

Looking ahead and future growth

As National Highways seeks to build on its performance and delivery in the second road period (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 consequence 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.

RIS2 delivery

National Highways had to manage several challenges to its delivery over RP2.

The start of RP2, in April 2020, coincided with the outbreak of the pandemic. This meant that National Highways began the period responding to events that were not anticipated when government set the second road investment strategy (RIS2). As the period progressed, the company was required to manage significant uncertainty and financial pressures due to delays in planning decisions – including legal challenge; high inflation; smart motorway programme changes; delays in government decisions; and wider pressures on public spending. Consequently, it had to repeatedly revise its original plans to respond to these challenges.

As set out across this assessment, during RP2 we prioritised gaining a clear understanding of the

challenges and risks to National Highways' evolving programme. We placed an emphasis on early identification to prevent these risks becoming issues that affect road users. We did this by seeking to understand – and helping the company to better understand – the decisions it took and the evidence on which it did so. This has allowed us to take proportionate and targeted action, considering the environment within which the company had to operate, to promote improvements in its performance and delivery.

Promoting improvements in performance

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 key performance indicator (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 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:

- 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
- for the KPI target to mitigate delays on the strategic road network (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 it, 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 the company's 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 the period, as set out in the six month update to the plan. It is continuing to do so into the interim period. It is important that the company continues to implement at pace the improvements it 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.

Continuous improvement

As we look to ahead to a potentially more financially constrained future, it will be increasingly important for National Highways to clearly evidence and effectively articulate the needs of the network, along with the associated risks. Doing so will be essential to securing the appropriate level of funding for a multi-year period and ensuring this nationally significant asset continues to meet the evolving needs of the country.

The future success of National Highways depends on its ability to meet emerging challenges and changes to demands placed on the network. This will require improvements in its ability to identify

issues, evidencing decisions and actions, acknowledging shortcomings, understanding root causes and implementing lessons learned. The company needs to take forward improvements it has already identified, notably entering each multi-year road period with clear, unambiguous plans. Any deviation from these plans must be robustly justified, with transparent evidence and a clear articulation of the impact on network performance, road users and the investment of public funds.

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:

- 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;
- set out a programme of analysis and research to improve its understanding of delays on the strategic road network (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
- developed and implemented improved regional plans that demonstrated a more assured approach to achieving its national pavement condition KPI in the final year of RP2 compared to earlier in the period.

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:

- has learned from RP2 the importance of evidencing the reasons for deviation from its original plans;
- continues to improve its capability to demonstrate the impacts of its decisions on the performance of, and future risks to, the network;
- continues to improve its asset management capability and understanding of its asset base, maturing its capability and governance to support growing renewals delivery; and
- 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 for the benefit of road users. Based on the commitments from the company to implement the improvements that it has identified, that we expect to be in the form of a plan, on balance, we have not identified any non-compliance that warrants further action by us.

We will work with National Highways and the Department over the interim period, and as the third road investment strategy (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.

- ← Previous Efficiency and finance